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THE "NEW CAPITALISM"

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Articles by:

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Philip Morrison
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Capitalism: How and When Did It Begin? MAURICE DOBB

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NOTES FROM THE EDITORS

This is our regular double summer issue. Its subject matter is the "new capitalism"—or the new capitalism without the quotation marks. The term appears both ways more or less throughout the issue, and this fact accurately reflects a certain indecision shared by all the contributors, including the editors: how new is the new capitalism is a question that interests us all, but one on which none of us yet seems prepared to take a definitive stand. We leave it to the reader to decide for himself whether all the contributions taken together add up to an answer.

Because of a shortage of space we have been obliged to omit the Review of the Month from this issue. This does not constitute a new policy, of course, and the Review of the Month will appear again as usual in the next issue, which will be published in September. Our present intention, subject to change, is to deal with the recent performance of the Supreme Court in the civil liberties field. In the meantime, may we refer interested readers to the Review of the Month entitled "The Role of the Supreme Court" which appeared in the September, 1957, issue? The basic analysis, we think, still stands.

Because of space difficulties we have also had to hold over until September an exchange of views on the nature of Marxism arising out of the two

(continued on inside back cover)

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THEORIES OF THE NEW CAPITALISM

BY PAUL M. SWEEZY

Few would quarrel with the proposition that capitalism is a highly dynamic, rapidly changing social order. Marx and Engels put the point at its strongest when they wrote in the *Communist Manifesto*:

> The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. . . . Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast frozen relations . . . are swept away, all new-formed ones become antiquated before they can ossify.

It would be easy to argue on these grounds that capitalism is always and inevitably a "new capitalism" in relation to what went before, and indeed there is a sense in which this is unquestionably true and important. But clearly it is not what is meant by all those people, representing many shades of opinion, who apply the name "new capitalism" (or some label with a similar connotation) to the present socio-economic system of the United States. They mean not just that the system continues, as in the past, to evolve in various unspecified ways but rather that in recent years it has undergone a number of specific changes which have decisively altered its mode of functioning.

If we try to pin down just what these specific changes are, however, we find less agreement and even not a little confusion. Mr. Haig Babian, Editor of *Challenge* magazine, published by New York University's Institute of Economic Affairs, has the following to say in an editorial introducing a special issue (October 1958) devoted entirely to the New Capitalism:

> It would be fitting to present in this editorial some clear and concise definition of what we mean by the term New Capitalism, but I must admit that such a clear and concise definition escapes me. Nevertheless, I feel no less incapable in this respect than the vast majority of my fellow citizens. It is much easier to say what the New Capitalism is not. It is not the classical capitalism so well studied in the past and so imperfectly practiced today. What it is remains to be seen.

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The reader who expects clarification from the twelve essays that follow Mr. Babian's introduction is likely to be disappointed, however. Most of them are by eminent economists and political scientists, and a number are of considerably more than passing interest. But they yield no agreement on the nature of the New Capitalism, and some of the authors even shy rather conspicuously away from using the term.

Is all this to be taken as evidence that the New Capitalism is an illusion? Not necessarily. The mere absence of a "clear and concise definition" of something doesn't prove that it doesn't exist, and in this case the remarkably widespread belief in the reality of some sort of new capitalism is at least *prima facie* evidence that it does exist. But the question remains: what is it?

One way to approach this question is via a critical analysis of the actual content of some of the better-known recent literature dealing with capitalism. I have tried to keep track of this literature with reasonable care, and what follows is an attempt to pick out the themes which stand out by reason of frequent repetition or particular emphasis or both. Since any systematic survey of sources—not to mention quotation of texts—is out of the question in a brief article, I have cited works and authors rather to enliven the exposition than to prove points. A short list of what seem to me to be the more important and representative works (including all those cited) will be found at the end of the article. Rather than burden the text with titles, I refer to those works by numbers enclosed in square brackets.

Breakdown of the Classical Model

All the writers on the new capitalism agree on one thing: the classical model of a freely competitive and self-adjusting economy no longer reflects the essentials of capitalist reality. In this model, all prices (including wages, rents, and rates of interest) were determined by the bids and offers of innumerable buyers and sellers each too small to effect the outcome by his own action. The interplay of supply, demand, and price was supposed to ensure that commodities would be produced in the right proportions, that productive resources would be correctly allocated and efficiently utilized, and that factors of production would be rewarded in accordance with their productivity. In addition, given competitive pricing, a slump could be no more than a temporary phenomenon since a general excess of supply must necessarily depress prices to the point where demand would once again clear the market.

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This idyllic picture does not apply to the new capitalism. The decisive capitalist enterprise is no longer the small individually owned firm but the giant corporation in which management is separated from ownership and which typically controls so large a share of the market that it can, within fairly wide limits, set its own prices. As we shall see presently, the theorists of the new capitalism are far from unanimous about how an economy dominated by big corporations does function, but at any rate they are fully agreed that it does not and could not function in the manner of the classical model. Perhaps the clearest and most concise spelling out of the reasons why the classical model is not applicable in the new circumstances is to be found in Galbraith [9], especially Chapter IV. Strachey [16] also gives a good account of the matter.

The Corporate Economy

There are at least four distinguishable, though in certain respects overlapping, views about how an economic model dominated by a relatively few big corporations should be expected to function. I shall describe them under the following somewhat arbitrary headings: (1) The "New" Competition; (2) Countervailing Power; (3) The Corporate Soul; and (4) Unchecked Oligopoly.

The "New" Competition. According to some writers, notably the Editors of *Fortune* [8] and David Lilienthal [12] the corporate economy generates a new kind of competition which works not only as well as but actually much better than the old kind. Price competition, to be sure, is out or at any rate relegated to a relatively minor role. In its place we have, first, competition in service and quality, and second, competition in innovation (development of both new products and new methods of production). The latter is supposed to be the more important of the two kinds of competition, and indeed is said to be responsible for lending to the new capitalism an enormously dynamic and progressive character with an unlimited growth potential. Under these circumstances, all the old depression-born fears of maturity or stagnation are quite groundless: the problem of the new corporate capitalism is not a shortage of investment outlets but lack of enough investment-seeking funds to realize its full possibilities. These ideas about the new competition and its wondrous promise for the future, incidentally, closely parallel and perhaps to a certain extent reflect theoretical currents in the economics profession. Schumpeter [15] preached the technological progressiveness of the big corporation long

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before it became a popular theme; while J. M. Clark [5] and E. S. Mason [14] took the lead in developing a notion of "workable competition" which they hoped would be as economically efficacious as the "free," "pure," or "perfect" competition of the past.

Countervailing Power. This theory is the special product of J. K. Galbraith [9]. It maintains that wherever dangerous power develops on one side of a market, there will grow up on the other side (either spontaneously as in the case of chain stores or mail-order houses, or with government assistance as in the case of agriculture and labor) a countervailing power which holds the original power in check. Thus despite the growth of potentially overweening monopolies (or oligopolies), the new capitalism develops a new self-adjusting mechanism which takes the place of the old competition. In a review of Galbraith's *American Capitalism,* Joan Robinson wittily and aptly characterized this theory as an effort at "re-bunking *laisser faire.*"

The Corporate Soul. The idea that the managers of the modern corporation no longer seek to maximize profits but in effect act as trustees of the whole community goes back to the well-known work of Berle and Means published in 1932 [3]. Since then it has been developed by the same authors, notably Berle [2], and has been taken up by many others, including professional economists (see especially Kaysen [11] for a clear, concise statement). In place of the old-fashioned "soulless" corporation we now have the modern "soulful" corporation seeking to do its best not only for stockholders but also for workers, customers, suppliers, and the general public. A system dominated by soulful corporations is supposed to operate very differently from the old profit-oriented capitalism. To listen to Berle, indeed, one gets the impression that modern corporations have instituted a regime of economic planning, in principle very similar to that in force in the Soviet Union. Such a system is naturally not threatened by the inequalities and instabilities which used to beset the old capitalism.

Unchecked Oligopoly. Almost alone among the theorists of the new capitalism (he usually calls it "last stage capitalism"), John Strachey [16] holds that *on purely economic grounds* the oligopolistic system of large corporations tends to develop *greater instability* and *more extreme* inequality than the competitive capitalist order. This is because Strachey believes, in opposition to Berle et al, that the big corporation is still profit-oriented, and its great market power enables it to realize much larger profits than its competitive ancestors could hope to earn. Large profits in turn are the source of both instability and in-

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equality (this follows from a style of reasoning which is common to both Keynesism and Marxism, which are judiciously mixed in Strachey's economic theory). If the new capitalism nevertheless does not break down but on the contrary functions with greater justice and efficiency than the old, the reason, in Strachey's view, must be sought not in the economics of the system but in its politics. And this brings us to a subject which it will be preferable to treat under a separate heading, namely, the role of the state in the new capitalism.

Role of the State in the New Capitalism

All of the theories of a new capitalism assign to the state both a different role and a larger role than the one it was supposed to perform in the classical and Marxian theories of the *modus operandi* of capitalist society. Nevertheless, there are differences of interpretation and emphasis.

John Strachey, as we have seen, finds that recent economic developments have tended to worsen the performance of capitalism but believes that these have been more than compensated in the political sphere. The active force here he sees as "democracy" which operates in many ways (through trade unions and labor-based political parties, of course, but also through conservative parties) and makes use of the most varied means to achieve its goals of full employment, equality, social welfare, and the like. The struggle between democracy and the inherent tendencies of corporate capitalism is unremitting and will finally end only with the suppression of democracy or the transformation of the system into full-fledged socialism. In the meantime, however, and as a by-product of this struggle, capitalism works much better than it used to. This, according to Strachey, is the secret of the latest—and what he takes to be the last—phase of capitalism.

An equally sophisticated but somewhat different theory has been put forward by the governing party of Yugoslavia [17]. According to this view, the decisive factor is not so much "democracy" as the state bureaucracy which is supposed to achieve a considerable degree of independence in the most advanced capitalist countries. This relatively independent governing stratum is able to carry out reforms and put into practice policies which modify the workings of the traditional capitalist system. Looked at in longer perspective, this state of affairs is seen by the Yugoslav theorists as transitional, already partially transcending capitalism and establishing foundations for socialist growth in the future.

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American writers on the new capitalism also stress the role of the state, but without feeling the need of any particular political theory to explain or justify it. The pragmatic experiments of the New Deal, the promptings of Keynesian theory, the compulsions of war and cold war—these are generally taken to have been the stages and factors which have propelled the state into a new economic role. But whatever their ideas about the causative factors at work, these American writers are in close agreement about two points: first, that the new role of the state is permanent and can now be treated as an integral feature of the system; and second, that the ability of the state to prevent a serious depression can be taken for granted—and this regardless of what happens in the field of armaments. Beyond this area of agreement there are, of course, differences about how much credit for the relatively favorable performance of capitalism in recent years should go to the state, and also about how much and what kinds of action the state will be called upon to take in the future. The "managerial" writers like Berle and the editors of *Fortune* generally play down the importance of the state, while "New Dealers" like Galbraith play it up and believe that the role of the state will inevitably continue to expand in the future. In practice, it may be noted, the position of the latter group is almost indistinguishable from the seemingly more radical socialist position of Strachey, a position which incidentally is shared by most articulate European Social Democrats.

Doubts and Criticisms

All the ideas and theories which have been surveyed have, naturally enough, been subjected to scrutiny and criticism, often from within the camp of believers in a new capitalism and perhaps even more frequently from more orthodox or skeptical sections of the economics profession. Here we shall have to be content with a desperately brief notice of some of the more important doubts and criticisms.

From the economics profession, the most devastating critique has been that of E. S. Mason [13], Professor of Economics at Harvard and formerly Dean of the Harvard Graduate School of Public Administration. Mason does a workmanlike job of showing that the whole range of "managerial" thought—and in this classification he includes what we have subsumed under the headings of new competition, countervailing power, and the soulful corporation—is, to put the point bluntly, superficial and hardly to be taken seriously. Of the exponents of the new competition he says that they "have hardly begun to grapple

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with the real problems implicit in their view of the structure and functioning of industrial markets." And he might have added that if and when they do grapple with these problems (a most unlikely contingency, by the way) they will find that even the most vigorous forms of non-price competition can in no way alter the logic of John Strachey's argument that oligopoly, left to itself, means higher profits, and higher profits mean more instability and greater inequality. With regard to countervailing power, Mason says, "The 'countervailers' have never been able to explain why countervailance does not lead merely to a sharing of monopoly profits at the expense of the rest of the economy." One is reminded of the witty remark of an early reviewer of Galbraith's book [9] to the effect that possibly some of the alleged countervailing powers may veil more power than they counter.* And of the alleged beneficence of soulful corporations, Mason has the following to say:

> Assume an economy composed of a few hundred large corporations, each enjoying substantial market power and all directed by managements with a "conscience." Each management wants to do the best it can for labor, customers, suppliers, and owners. How do prices get determined in such an economy? How are factors remunerated, and what relation is there between remuneration and performance? What is the mechanism, if any, that assures effective resource use, and how can corporate managements "do right by" labor, suppliers, customers, and owners while simultaneously serving the public interests? . . . I can find no reasoned answer in the managerial literature.

The answer, of course, is that if a few hundred sovereign corporations each took it upon itself to plan in the public interest, the result would be not a new capitalism but simple chaos. Fortunately for capitalism, however, this at any rate is not one of its more pressing problems. Professor James Earley [7], of the University of Wisconsin, has shown on the basis of empirical studies such as none of the managerialists has ever bothered to carry out that the modern giant corporation is more, not less, profit-oriented than its small-scale predecessor.

Mason's riddling—and in part ridiculing—of managerial theories is the more impressive in that it was never any part of his purpose to cast disparagement on capitalism, old or new. On the contrary, his interest in these theories stemmed from a belief that a new rationalization and justification of capitalism (he calls it an "apologetic") is

* C. L. Christenson in the *Journal of Political Economy*, June 1952.

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needed to take the place of the now outdated classical theory based on the assumption of free competition. Mason's examination of the various versions of managerialism—and in his usage this takes in most of what we have included under the heading of theories of the new capitalism—shows, however, that nothing is to be expected from this quarter. "The attack on the capitalist apologetic of the nineteenth century has been successful," he concludes, "but a satisfactory contemporary apologetic is still to be created." And he adds that he suspects that "the psychologists, the sociologists, and, possibly, the political scientists" will have more to contribute to it than will the economists. The article ends on a worried note: "It is high time they were called to their job."

Mason is certainly right about the impotence of economics before this task. The entire logic of economic theory points to the conclusion reached by John Strachey: the immanent tendency of an oligopolistic economy of giant corporations is toward ever more inequality and ever greater instability. This does not negate the argument in favor of such an economy (as opposed to small-scale competitive capitalism) on the grounds of superior technological progressiveness. Manifestly, in an age of science and organized research the big corporation *is* much better equipped to innovate than the individual entrepreneur.* There is, however, no reason to equate rapid technological advance with unlimited investment opportunity. A high rate of technological progress can be financed from depreciation allowances—that is to say, with no net investment at all—and to the extent that new technologies are both labor-saving and capital-saving they may just as well exacerbate as ameliorate the problem of providing investment outlets for the swelling tide of profits which the big corporations tend to generate. Whatever satisfaction one may derive from the technological performance of the big corporations, clearly there is no ground for supposing that an economy dominated by them, if left to itself, would function any more satisfactorily than the old-fashioned capitalism it replaced.

This brings us back again to the role of the state. What are we to say about Strachey's theory that "democracy" makes all the difference to the functioning of capitalism? If one were to confine one's attention to postwar Britain and a few of the smaller Western European countries, one could perhaps make out a case for this theory, but as a

* But see Professor Morrison's article below for an estimate of the extent to which innovation in the American economy today owes its existence to war preparations.

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generalization there is little to be said in its favor. The first large-scale experiment in the Welfare State was carried out by Imperial Germany under Bismarck, hardly a model of democracy. And the first successful, albeit unconscious, application of Keynesian economics was the work of Hitler. At the very same time, the United States under the New Deal was in what may have been the most democratic phase of the country's entire history—and continued to suffer from mass unemployment on an unprecedented scale. In the face of facts such as these, it is hard to take seriously a theory which attributes a decisive change in the functioning of capitalism to democratically motivated (or generated) state intervention.

The Yugoslav theory of the independent state bureaucracy is, if anything, even less convincing. So far as the United States is concerned, for example, there has probably never been a time when the whole state apparatus has been more securely in the control of Big Business than during the 1950s.

Not that all those writers are wrong who stress the increased economic role of the state under capitalism. That such an increase has indeed taken place, and that it has had its effect on the functioning of the system—these are matters of common observation which no one could deny. But this appears to be a long-term trend which has operated under democratic and dictatorial governments alike and which has little or nothing to do with the character of the state bureaucracy. How it is related to capitalism and in just what sense it may be said to have produced a *new* capitalism are questions which none of the theories we have been surveying seriously tackles, let alone successfully answers. The truth is that these theories, purged of their errors and illogicalities, boil down to a few simple propositions about the increased economic importance of the state and the absence of sharp or prolonged depressions in the period since World War II. In this form the theories are quite unexceptionable—and equally unenlightening.

Concluding Remarks

Let me conclude with a few suggestions as to what it seems to me ought to be the Marxist view of the issues raised in this article.

First, whether one calls present-day capitalism "new" or "last stage" or what have you is not a matter of great importance. But it *is* important to recognize—and not to lose sight of—the fact that in some respects the system has worked better in recent years than it used to.

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This is particularly true with respect to the severity (though not the frequency) of depressions.

Second, the "new capitalism" theories are right to stress that the old-fashioned competitive, self-adjusting model is no longer applicable. They are also right to insist on the *dominant* role of giant monopolistic (or oligopolistic) corporations.

Third, John Strachey is right to argue that the immanent tendency of a capitalist economy dominated by giant corporations is toward more, not less, inequality and instability. In the absence of counteracting forces, such an economy tends to bog down in chronic and self-destructive depression—as indeed the American economy did in the years after 1929.

Fourth, the system itself—and not "democracy" or an independent state bureaucracy—generates counteracting forces. They can all be subsumed under the general heading of waste. Some of the waste is private—salesmanship, fins, planned obsolescence, and so on and so forth. Private waste, however, is insufficient and the government is called upon to help. Because of democracy and such independence as the state bureaucracy may possess, there is a tendency for the state to embark on welfare and other types of useful projects, but the vested interests imbedded in the system set up the most powerful kind of blockages, and (so far at any rate) the only type of government activity that has been sustained on an adequate scale is the purely wasteful one of war preparations. *It should never be forgotten that quantitatively the only really new feature of post-World War II capitalism is the vastly increased size of the arms budget. All other government spending is about the same percentage of the Gross National Product as in 1929.* Further, there is no reason except wishful thinking for believing, if the arms budget were reduced to the proportions of the 1930s, that the economy would not once again revert to the condition of the 1930s.

Finally, it should be no part of the Marxist view that all this is inevitable and must remain unchanged until the day of the socialist revolution. Perhaps, in a world going socialist, a determined democratic movement in the advanced capitalist countries—or at least in some of them—can make the welfare state a real substitute for the warfare state. But it hasn't happened yet.

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13. Mason, E. S., "The Apologetics of 'Managerialism,'" *The Journal of Business,* January 1958
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15. Schumpeter, J. A., *Capitalism, Socialism, and Democracy* (1942)
16. Strachey, John, *Contemporary Capitalism* (1956)
17. *Yugoslavia's Way: Program of the League of Communists of Yugoslavia* (1958)

Since the seventies . . . the course of affairs in business has apparently taken a permanent change. . . . During this recent period, and with increasing persistency, chronic depression has been the rule rather than the exception in business. Seasons of easy times, "ordinary prosperity," during this period are pretty uniformly traceable to specific causes extraneous to the process of industrial business proper. . . . If the outside stimulus from which the present prosperity takes its impulse be continued at an adequate pitch, the season of prosperity may be prolonged; otherwise there seems little reason to expect any other outcome than a more or less abrupt and searching liquidation. . . . That is to say in other words, the absorption of goods and services by extra-industrial expenditures, expenditures which as seen from the standpoint of industry are pure waste, would have to go on in an increasing volume. If the wasteful expenditure slackens, the logical outcome should be a considerable perturbation of business and industry, followed by depression.

Thorstein Veblen, The Theory of Business Enterprise, *1904*

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THE NEW CAPITALISM: A VIEW FROM ABROAD

BY RALPH MILIBAND

There was a time, not so very long ago, when left-wing Europeans felt America to be on their side. Any comparison of New Deal America with other major capitalist democracies was greatly to the latter's disadvantage. Whatever its limitations, the New Deal was thought to have the right kind of bias and tone. The climate it engendered was one of hope. Compared to it, the policies of its contemporary, the so-called National Government in Britain, constituted a callous disregard of human suffering.

America was outside the main stream of world politics in the late thirties, the years of fascist aggression. It was thus much less involved in the appeasement of the aggressors. And Franklin Roosevelt at least appeared a good deal less ambiguous about fascism than most men responsible for affairs in Britain or France.

Furthermore, a genuine political battle was then going on in America, and the millions of Americans who were passionately opposed to fascism seemed more nearly to personify the reality as well as the promise of America. Some Americans went to Spain and fought in the Lincoln Brigade. They were not thought disloyal to their country; those who returned did not, at the time, have their credentials as good Americans questioned. It is odd to think that many of those who were then deeply committed to good causes are now furtive about their commitment, even ashamed of it.

Of course, one should not idealize the America of the thirties. Not that one is often allowed to, these days. Yet, it is difficult not to do so when one looks at America and its role in the world today. For America today is everywhere on the wrong side. It is not the leader of the free world. It is the leader of the old world. There is a considerable difference.

The Changed Image of America

To judge a country by its allies is not sufficient, but neither is it altogether irrelevant. In the case of America, the pattern is too con-

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sistent. America's allies are the weirdest assemblage of people, from the Shah of Persia to Syngman Rhee, from Adenauer to Chiang Kai-shek, from Franco to Ibn Saud, from de Gaulle and Harold Macmillan to every gangster dictator or candidate dictator in Latin America. Wherever there are to be found the leaders and spokesmen of the great international society of wealth and privilege, of parasitical appropriation, of corruption and decay, there too will also be found the best friends, or at least the most faithful clients, of the United States. That there should also be numbered among them many of the leaders of European Social Democracy is a significant comment on the latter's political decrepitude. Nor, I think it is fair to say, is their devotion to the American connection really shared by their rank and file. There isn't much enthusiasm for the Grand Alliance in any rank and file, anywhere.

America, one is constantly told, has had thrust upon it since the end of World War II the mission of saving the world—or that part of the world which could still be saved—from Communist encroachment and domination. That mission is usually conceived, often with obvious sincerity, in terms of high-sounding antithesis between freedom and slavery, democracy and dictatorship, even religion and materialism.

This is a good example of what Marx called false consciousness. For what is really at stake is not freedom but free enterprise, and again there is a considerable difference. All else gets out of focus unless one starts from the central fact that American policy has above all been concerned to arrest and if possible to roll back the wave of collectivism which is irresistibly sweeping over the world.

It is not realistic to view this as the result of some altogether altruistic impulse to have other nations continue to enjoy the blessings which America is deemed to enjoy under the free-enterprise system. History is not made of such impulses.

There is the much more concrete, and to many people intolerably vulgar, fact that the shrinkage of the world of free enterprise must also mean the shrinkage of the area in which American enterprise may find a free field of operation. It is of course possible to believe that the American oil industry, and therefore the American government, are opposed to the nationalization of Middle Eastern oil because of the conviction that this would not be in the interest of the local populations. It seems more intelligent to believe that the opposition stems from a not unnatural fear that the American oil industry

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would then cease to draw so substantial a revenue from its concessions in those countries. And, with suitable modifications, what is true for the Middle East is also true for Venezuela and Britain, for Japan and Germany, for France and Vietnam, for Cuba and Spain.

American entry into the business of international capitalism does of course antedate by far the end of World War II. But it is one of the distinguishing traits of postwar American capitalism that it is international on a really massive scale, decisive in policy terms.

Attempts to resist the trend to collectivism (a trend which is inherent in the conditions of our epoch but which Russia has of course greatly helped to accelerate) have taken a wide variety of forms, economic, political, even "cultural." But the most important effort has of course been in the military field.

At this point, however, two other factors come into play. The first is that the building up of military power and counter-power, while it masks the real source of world tension, also greatly increases that tension by allowing strategic considerations to acquire a momentum of their own, an inner dynamic which drives the participants out of the world of rational politics and into the world of pentagonic insanity. Much the same kind of situation obtained in Europe before 1914—with 1914 as its outcome.

The second factor is that preparations for war have become the single most important enterprise of the "new capitalism." This is its New Deal. There are few indices more revealing of the health of what Professor Galbraith quaintly calls the "affluent society" than the frantic reactions of the American business world to the threat of peace breaking out. In fact, there is no economic system anywhere which has so large a stake in the perpetuation of world tension. It is perhaps a good indication of the changed character of liberal thinking in America that this feature of the new capitalism, with all its enormous consequences and implications, should not figure more prominently in liberals' assessments of their society.

American Liberalism

It was Oscar Wilde who said that America's youth was its oldest tradition. Actually, its liberal tradition is just as old. Given the direction and emphasis of the new capitalism, it was to be expected that American liberalism, not to speak of other schools of thought which conformed even less to ascendant definitions of Americanism, would come under attack. What was less expected, at least by many people

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abroad, perhaps naively, was that American liberalism should so readily adjust, in so many spheres, to the spirit of the times. Liberalism has manifestly not been crushed in America. But it would seem to an outsider to have decisively shifted its political and intellectual axis. Its capacity for dissent would seem weaker, its eagerness to conform greater.

To be sure, American liberalism is not reconciled to every feature of the new capitalism. There is abundant proof of liberal dissatisfaction, freely expressed, with this or that aspect of American life and culture, with the trivialization of American politics, with the raucous vulgarity of American commercialism, with the waste and misdirection of America's resources.

Nevertheless, the difference of approach of the new liberalism from its earlier versions is very striking. The starting point of the liberalism of the thirties was a profound suspicion of private enterprise and business power. One of its best expressions was a sociology of protest and dissent which probed deep into the hidden recesses of American society. The new liberalism, to judge by most of its academic products, does not probe; it scratches. It does not so much protest as View With Alarm. Its sociology and its politics are not of dissent but of adaptation. It would seem to regard as beyond serious questioning a social order based upon the private incorporation of the economy and geared to the maximization of private wealth. Liberals once thought in terms of TVA; they now think in terms of TV. They may be critical of the values of the new capitalism, but their critique does not seem to reach to the sources of these values. It is not the fact that the girl is a whore that they wring their hands about; it is the fact that she looks and talks like a whore.

This, to a non-American, is even clearer in regard to the approach of American liberalism to foreign policy. One regularly comes across American liberals abroad, particularly academic and professional people of one sort or another, who are critical of various aspects of their country's foreign policy, who deplore its "rigidity," who would wish America to devote a greater part of its resources to underdeveloped countries, and so on.

Yet, their criticism more often than not seems one of method and implementation rather than of substance. It is with the way in which America is fulfilling its mission in the world that they appear to disagree, rather than with the nature of that mission. This is what makes liberal criticism of American foreign policy so often seem

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merely trivial. For, while there is the basis of a real argument between people who believe in the abolition of the death penalty and those who believe in its retention, arguments on the respective merits of gassing and hanging as methods of capital punishment are boring, even disgusting. American liberals criticizing their country's foreign and strategic policies often sound as if they favored hanging rather than gassing.

Nor is this surprising. Unable or unwilling to probe the reality of the new capitalism, the new liberalism dwells fairly comfortably in the world of ultimate antithesis, at one pole of which there is an idealized version of America's role in the world, while at the other there is the totality of Communist evil. American liberalism, along with some of its more radical variants, sometimes seems to have acquired a massive vested interest in the ugliest aspects of life in the Communist bloc. Just as the stock market fears a diminution of tension in the world, so do many American liberals seem to fear the Communist bloc's emergence from its repressive shell. This, too, is understandable. For the growth of freedom in Communist countries raises the appalling possibility that the world of cozy certitudes which American liberalism has built for itself might crumble. This would necessitate a more searching, and less fashionable, analysis, not only of the forces at work in the Communist bloc, but of the nature and impulses of the new capitalism itself. This is an exercise of which American liberals have long seemed intellectually and emotionally incapable. And there are, I might add, plenty of American-style liberals in every country of the free-enterprise world.

Liberals who endorse, even with reservations, the foreign and strategic policies of America's present decision-makers are necessarily crippled, morally, intellectually, and politically. Of this I wish to cite one instance among many. Nowhere outside the United States and some of its more backward satellites is there any support for the continued exclusion of China from the United Nations. Were it not for the insistent pressure of America on its allies and clients, this would now be a half-forgotten curiosity of the cold war. It would seem the kind of issue on which American liberals might have been expected to speak out loud and clear. If any substantial body of them has so far done so, the outside world has yet to hear of it. No doubt, to do so would involve the risk of some measure of unpopularity. But that, it seems, is just the trouble with present-day American liberalism. It would much rather be popular than liberal.

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The cold war may yet end in something other than total disaster. If so, American liberalism will bear little responsibility for that outcome. Indeed, should the time arrive when the crusaders are disbanded, it looks as if some American liberals will be the last to go home.

Labor and Intellectuals

Acutely conscious as they are of America's immense power for evil, many European socialists anxiously probe American political life for any sign of change in the emphasis, if not in the direction, of American policy making. They don't, in truth, hope for very much, but they would by now be grateful for small mercies. One influence for good that they have long felt compelled to discount is that of American labor. For years now, a succession of American labor leaders have appeared at meetings of the Trades Union Congress and other European labor bodies to exhort their audiences in language not easily distinguishable from that of State Department officials. These leaders may not, for all I know, have been expressing the precise sentiments of those they lead, but it is clear that no American government in the last decade has had any serious difficulty in having organized American labor endorse whatever policy or strategy it has chosen to adopt. The world might have been less near to collective death had it been otherwise.

On the other hand, there is no very good reason why it should have been otherwise. It would be nice to think that labor, alone of all social groupings, could have been insulated from the pressures to conformity which have operated in America in the era of the cold war. But one could do so only by dwelling in the realm of social metaphysics, not that of social analysis.

Yet, this point ought not to be pushed too far, as it often is nowadays. It is sometimes suggested that the new capitalism has produced a historically unique labor force, whose commitment to it, and to the policy decisions it engenders, is for all intents and purposes irrevocable. A capitalist variant of *1984*, it would seem, is practically upon us, in which it would be absurd to look upon the moronized and happy *proles* as a potential factor of radical dissent or as sources of alternative values.

For all its immediate plausibility, the view of labor as irrevocably committed to its present postures would seem a very short one. It is a view which rests, to a remarkable extent, on a somewhat simple as-

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sessment of the impact of modern gadgetry. Many intellectuals, one finds, and not only in America, are haunted by the spectre of the television aerial. At one time it was the popular press, or religion. But in reality, mystification is only possible in, and because of, circumstances which lend themselves to it. To think that these circumstances are likely to endure indefinitely is to attribute to the new capitalism a resilience and a viability which even many of its most dedicated supporters do not feel confident it possesses. And it is also to ignore the extraordinary changes which are occurring with such remarkable speed all over the world. Just as American labor could not be insulated from the pressures of the last decade, so it seems unlikely that its view of the world, including its view of America and of its future, can, under different conditions, remain frozen in its present mold. Of course, it is perfectly true that a nuclear war may occur meanwhile.

From afar, it seems one of the real achievements of the new capitalism to have robbed so many dissenting intellectuals of the belief that labor might be a lever of radical change in their society. What they once viewed as a movement, they now see as an interest, not more interesting or hopeful than other interests, in some ways less. They may work in union bureaucracies, but they recoil from the supposed illusions of an often sourly remembered past.

It is in times such as these that dissenting intellectuals, having "given up" labor, either give up dissent as well or feel driven to seek different audiences in order to make their dissent effective. They may choose to speak to their rulers and exhort them to behave more reasonably; or to direct their exhortations to their fellow intellectuals, or ministers, or scientists, or equally marginal groups deemed more likely, as groups, to share their anguish.

This search for alternative levers of change is usually discussed in terms of likely effectiveness, or the lack of it. But there is another point to it which is, for dissenting intellectuals, of scarcely less importance. What is involved is not only a difference of audience but, with it, of the content and character of dissent itself. What is involved, in other words, is a mode of thought as well as a way of action. It is easy to understand why intellectuals have, in the last decade, found little attraction in the focus on labor as a potential lever of change. But is it not possible that, in a period of deepening crisis, there might be fresh forces slowly forming in the valley of the shadow of death?

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EMPIRE, NEW STYLE

BY WILLIAM APPLEMAN WILLIAMS

Much of the confusion surrounding the nature of current American foreign policy stems from the fact that the conflicting interpretations are cast within the framework of analysis developed by Hobson and Lenin half a century ago. Those who deny the existence of American imperialism do so on the grounds that the facts do not fit those particular theories. Others insist upon the validity of the old formulations. But Hobson and Lenin wrote during and about the heyday of imperialism, whereas the world today finds itself in the fuzzy half-light provided by the twilight of imperialism and the dawn of world socialism. The problem, therefore, is to develop a description and theory appropriate to the changed circumstances.

If this proposition be accepted, then nothing illuminates the foreign policy of America's "New Capitalism" quite as sharply as Marx's basic axiom about the decline of a given system. "No social order ever disappears," he observed, "before all the productive forces for which there is room in it, have been developed; and new higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society." This approach helps us to formulate and deal with five basic issues: (1) what American policy was and now is *not;* (2) the roots and nature of American policy; (3) what American policy has become; (4) the dilemmas of present American policy; and (5) the alternatives open to American policy makers.

(1) What American Policy Was and Now Is Not

At the outset, any serious attempt to develop a theory and interpretation of American foreign policy in the twentieth century has to deal with the problem of terminology. For to begin by posing the problem in terms of whether or not there has been or is such a thing as "American imperialism" is to invite a squabble instead of a fruitful

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discussion. The fact is that the average American's image of imperialism serves to prove *a priori* that this nation never had such a policy or program. After all, so runs the argument, the United States never conquered native peoples or established empires in the manner practiced by France, Britain, Germany, and other European powers; hence it is non-imperialistic by definition. Socialists and other critics are far too prone to start arguing at this point instead of going on to develop a theory and an argument which by-pass the stereotype.

But how, it may be asked, can this be done without giving away the basis for discussion? The answer is twofold. In the first place, little is accomplished by arguing about a nomenclature that is the product, in about equal parts, of ignorance, propaganda, and ideology (in the root sense of rationalized belief). The better part of strategy—as with valor—often lies in giving away a few points in order to gain the substance. More important, it is about time to admit the rather large element of truth in the claim that the United States has not been imperialistic in the old, traditional way.

Granted that America has crushed a Filipino rebellion with a ruthlessness that matched *any* similar European operation; has unilaterally used force (or the threat thereof) against many specific governments in Latin America and other areas; and has today what amounts to several administrative colonies in the Pacific Ocean; still the fact remains that the United States did not construct an empire in the classic European sense. And that is the sense in which the term imperialism has been used by protagonist and critic alike.

Accepting this fact produces one immediate reward: a basic insight in the form of the seemingly absurd assertion that the anti-imperialists really won the great debate over American expansion at the turn of the century. Usually analyzed in terms of a fight between those who wanted an empire in the European tradition and others who preferred to remain isolated, the argument was in reality over *how* to expand rather than *whether* to expand. Only a small minority of Americans opposed expansion, and it is manifest that the United States has in fact expanded throughout the world in every way since 1890. Hence the first problem becomes one of determining *why* Americans agreed to expand, and outlining the strategy upon which they rather quickly reached a consensus.

(2) The Roots and Nature of American Policy

Without any question, the basic force behind American expansion

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was an idea developed about the performance of the domestic economic system between 1876 and 1896. Stated in a somewhat oversimplified form, this proposition asserted that the vast home market of the United States was insufficient to sustain capitalism without recourse to overseas economic expansion. Developed as early as the 1870s, and discussed generally throughout the country in the 1880s, this thesis was considered proved beyond question by the failure of the system to recover from the panic of 1893. Businessmen, farmers, labor leaders, military commanders, and intellectuals agreed on the prognosis and the remedy. Even missionaries accepted the axiom in the form that the conversion of overseas heathen was necessary to sustain the church at home. Popularized in the form of the frontier basis of American history (just as it had been in England during the nineteenth century) this classic capitalist theory became the major premise of American thinking about foreign policy.

Such a fundamental consensus left only one issue unsettled: in what manner and in what form should this overseas expansion take place? While a small group on both sides took and maintained extreme positions (those of formal colonialism and no expansion of any kind), the argument was rather quickly settled on the following terms. Though differing to some extent over the necessity for *immediate* full-scale action, Americans agreed that overseas expansion was necessary. With considerable sophistication, however, they concluded from their study of European examples that the various kinds of colonial empire were economically inefficient. The administrative costs were too high. Hence they formulated a conception of economic empire limited to establishing and securing the right of access for American economic penetration. Given that, they were confident that the power and efficiency of the domestic system could overwhelm any competition.

Political and ideological arguments reinforced this economic analysis. In this area, fears and ideals coincided. However they might fall short in practice, the great majority of American leaders accepted the principles of democracy. Even such a class-conscious aristocrat as Theodore Roosevelt looked forward to the day when Egypt, for example, would control its own affairs. They were intensely aware of the contradiction between such ideals and the practice of alien political rule in any of its many forms.

They appeared particularly aware, moreover, that they had failed in this respect during the Era of Reconstruction, when the North had attempted to rule the South through a form of domestic colonialism.

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Even the practical results of that effort had not been very satisfactory. Against that background, they concluded that home rule was the only truly democratic procedure to follow in dealing with weaker societies. Their ideal became native governments friendly toward American leaders and amenable to American policy and action. Most of them were quite frank in admitting that there was a happy coincidence between this political principle and their program for the most efficient and profitable form of economic expansion. Quite humanly, they explained that fact by reference to America's own prosperity and democracy and then advanced it as a further reason and justification for America's expansion.

This concern for democratic principles and home rule also produced a negative argument against traditional colonialism. Old-fashioned empires had to depend upon sizable armed forces, the majority of American leaders concluded, and this had several dangerous consequences. On the one hand, it increased taxes and thereby undercut the ability and vigor of capitalism to accumulate the necessary amount of investment capital. In a related way, they feared that the increased power of the government under traditional colonialism would soon extend beyond the realm of military affairs and lead to all kinds of interferences and regulation in economic matters. And perhaps most important, they feared that the military would come to exert a greater—even decisive—voice in general political and economic decisions.

These conclusions reinforced a basic desire—even determination—to avoid war as an instrument of policy. American leaders wanted peace for obvious reasons, but in addition they feared a reliance on force because it would disrupt the routine development of their own and the world's economic system. To be sure, a few leaders shared Theodore Roosevelt's feeling that war was inevitable and probably good for the health of society, but the great majority disagreed with such a philosophy of blood and iron. As exemplified in the cases of the Spanish-American War and World War I, this majority was willing to resort to force if its objectives could not be attained in any other fashion, but American expansion was not characterized (at least in the beginning) by any strong reliance upon, or enthusiasm for, the use of force.

As should be apparent from this review of their analysis and policy, the majority of American leaders were neither callous colonizers nor naive isolationists. Applying their intelligence to the problem

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of depression and the threat of social unrest, they developed a quite sophisticated solution based on overseas economic expansion. Identifying their program with the symbols of patriotism, prosperity, and democracy, they won general support for their course. Formalized in the Open Door Notes of 1899 and 1900, which demanded equal economic access to backward areas and an end to further colonial expansion, this policy of general expansion became the theme of American foreign policy in the twentieth century. And the manner in which it was put into operation, and the final dilemma which it created, is in many ways the central theme of world history since World War I.

(3) What American Policy Has Become

As the reader already may have sensed on the basis of knowledge of more recent events, some aspects of American policy seem to have become rather sour caricatures of themselves in the years since 1900. This would seem particularly apparent in the realm of economics. True enough, the original emphasis on the necessity of overseas expansion to avoid stagnation at home has intensified itself to the point of becoming a fetish. But in other respects the original meaning of the Open Door Policy has been reversed.

Beginning in the decade of the 1920s, when Herbert Hoover and Charles Evans Hughes initiated a general campaign to penetrate all colonial areas in the world and build an integrated American economic system, the United States slowly shifted to a new posture. On the one hand, as the system was developed, such leaders began to define the Open Door in exclusively American terms. As dramatized by Secretary of State Cordell Hull, the key to world prosperity was defined as an American economic system accepted by the rest of the world. First applied in Latin America, and then extended elsewhere, the principles of the Open Door were warped to explain and justify the limitation or the closing down of the activities of other capitalist countries. At the same time, the Soviet Union and later socialist countries were excluded from the specific American system and from the area of the world it came to dominate. What had originated as a policy designed to insure equal access and free competition had thus become a policy of building economic fences around the world outside the socialist countries. Inside the preserve, the United States made and enforced the rules. And outsiders were admitted only on terms established by Washington.

A somewhat different pattern developed in the realm of ideology.

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The central theme of "local native governments friendly to us" has proved a viable policy from the point of view of American leaders. The exception of Okinawa serves basically to dramatize the fact that the United States is not a colonial empire. It has, of course, supported other imperial powers as they struggled to hang onto their former (and present) colonies. Despite this fact, there is not much reason to doubt the oft-repeated assertion that American leaders would prefer an Algeria, for example, cast in the mold of the Philippines than the present mess. And there is not much point in denying the fact that the United States has—at least over the long haul—been willing to honor its avowals of home rule to the point of permitting more democratic governments to develop in such poor and archaic societies.

But a subtle yet vital change in the original policy has occurred. The limits set on the *kind* of home rule have become far narrower and more rigid, and they have been enforced effectively wherever possible. Socialist home rule is not acceptable, and quasi-socialist governments are barely tolerated. Even anti-Communist governments which initiate significant measures of state intervention in the economic sector are subjected to careful scrutiny and strong pressures. Whether the example is Russia or China, Guatemala or Bolivia, official American policy stands on the principle of changing such governments. Here, as in the case of economic policy, the original principle of the Open Door Policy has been reversed; for in its conception the principle of home rule was unrestricted.

Always closely connected with formal ideology, the original political axiom that expansion was necessary for democracy at home has survived unimpaired. The intimate relationship between this idea and its economic counterpart is so obvious that no extended review is necessary. American leaders may have ceased using the metaphor about the falling row of dominoes, but they unquestionably believe that democracy at home depends on the *generalized* existence of American-style governments abroad. The dramatic change in political ideas has come around the question of government intervention and leadership. Strong government was originally feared because it would hurt capitalism and democracy. Today the same thing is welcomed as "leadership" to preserve economic welfare and political freedom. Clearly enough, American leaders have learned—and applied—the lesson that big government in *their* hands does not hurt *their* economics or *their* freedom.

Very similar changes have occurred in the realm of military af-

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fairs. Indeed, perhaps the most striking reorientations have developed in this area. True enough, there is still considerable concern about the extent of military influence on non-military decisions. But the amount of military influence that has been accepted as necessary and even desirable goes far beyond the danger point defined by American leaders at the turn of the century. It seems worthwhile to emphasize the fact that this attitude has developed not as the result of a series of coups by military cliques, but rather as the consequence of civilian leaders' defining their positions in military terms.

Not too surprisingly, therefore, military criteria have come to be applied and accepted in other fields. Force and power have become good words, whereas at most they are neutral words, referring only to abilities and not the use for which they are employed. Here the contrast with the attitude of the 1890s could hardly be greater. At that time the Open Door Policy was seen as a diplomatic approach that would avoid war as an instrument of policy. Today force is seen as the basic instrument of policy which will establish an Open Door which in turn has been redefined to mean keeping other countries out instead of establishing the conditions of free competition. Whatever else may be said in criticism of American leaders of the 1890s, most of them were absolutely sincere in their willingness to compete. Today the sincerity is equally strong, but the commitment is to a fear of competition—to a fear of co-existence.

(4) The Dilemmas of Contemporary American Policy

Having come full circle in many basic respects, American leaders are now confronted with the dilemmas inherent in having built a successful empire. Simply put, the problem is whether or not to return to the original meaning of the Open Door Policy and embrace co-existence. If they do, then they will have to accept socialism abroad and prepare for it at home. If they do not, then they will either have to fight a world war or spend their abilities and their energies in a degrading effort to sustain the disintegrating empire for what remains of their lives.

In economics, for example, the failure of America's attempt to build a new capitalist system has produced the policy of the common market. The theory is transparently simple: since America's world system cannot, in its present form, buy all it produces, the only thing to do is band the individual nations that comprise it together in larger, more rational and efficient units. Germany, Brazil, and Japan have

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been chosen as the leaders in this effort; and considerable thought is being given to the perplexing question of picking a key nation in Africa. In one sense, of course, the common market plan does represent what Marx called the full development of the potentialities of a given system. But the long-run consequences are rather clear. For if the common market approach does succeed, then Germany, Brazil, and Japan will emerge as rational, efficient, and effective competitors to the United States. Under those circumstances it is not fantasy to imagine, for example, the complete reversal of the Good Neighbor Policy in our relations with a Latin American common market dominated by Brazil.

In its *internal* effects, moreover, the common market approach is very likely to strengthen the movement toward socialism. This is true not only in the sense of creating an industrial base capable of supporting socialism, but also in the sense that such a rationalized economy will have to be planned and coordinated. Forewarnings of these effects can already be seen, for that matter, in the case of Britain's recent trade agreement with Russia; and in the interest in such deals being manifested in South America. And in the United States, meanwhile, there are clear signs (just as there were between 1926 and 1932 in connection with the Soviet Union) that key leaders in the business community are beginning to agitate for trade with China.

America's ideological and political dilemma can be seen in classic form in the last ten years of its policy toward Egypt. Support was first given to Farouk because he was a "native ruler friendly to us." As in many similar instances (e.g. Indo-China), home rule of the Farouk variety was loyal but nevertheless a liability because of its own corrupt and unproductive nature. Hence it was overthrown from within. At that juncture the United States confronted a very trying situation. Support for a dynamic, creative revolutionary government would square with the principle of home rule; but such a government did not meet the definition of "friendly" required in view of America's sense of the necessity to expand economically.

In the case of Egypt, the United States vacillated between acting as a protector of home rule in the face of opposition by other Western empires and exerting strong pressure to secure basic economic predominance. Other examples illustrated the two extremes in all their purity. Aid to Spain, for example, could be defended only on the grounds of loyalty defined in terms of military alliances. The issue of democratic home rule was so absurdly irrelevant that it was never

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raised—at least not seriously. Grants to Poland, on the other hand, were clearly designed to bring about home rule by specific groups preferred by American leaders.

As the cases of Spain and Poland suggest, the dilemma of American military policy in a real sense subsumes all the others. For in neither case is America able to unite both halves of the policy of "democratic home rule friendly to us" without recourse to the use of force. Even if successful, the use of non-nuclear force would deny the principle of democratic home rule. And any resort to nuclear weapons would provide an instance of the solution literally destroying the problem. Looked at in overall perspective, the situation is almost perfectly ironic. Having started out with a policy of no war, American leaders ultimately created and used the most devastating weapon in the history of man. That action in turn created a situation in which it was completely self-defeating and unrealistic to use the weapon again. Hence American leaders were confronted with the necessity to go back to their original principle of free competition short of war, but they were no longer confident enough in their own system to do so.

What has happened, in short, is that the basic elements of America's Open Door Policy have developed just about to the limits of their assumptions and logic. At the same time, the system has created the basis for a new domestic society and a new diplomacy. It appears highly probable, indeed, that we are fully entered into the last stage of classical capitalism in the United States, and that the failure-in-success of the Open Door Policy has played a major role in this development. America's China policy would seem to bear out Marx's assertion that the event which signified in dramatic form the beginning of an era reappears, but in the form of a farce, to signify the end of the same epoch. For the policy of open door expansion was formulated in a serious move to forestall the complete break-up of China and to help the Chinese reassert and develop their independence. Today the United States refuses to recognize the existence of the first Chinese government in over a century to have accomplished precisely what the original Open Door Notes defined as the objective of American policy. And whatever else it may be, the non-recognition of China is certainly a farce.

(5) The Alternatives Available to the United States

Five options would appear open for serious consideration by American leaders caught up in the impasse of present American diplo-

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macy. It is very probable that three or four of them have been discussed rather seriously for the past few years, even though John Foster Dulles worked hard to create the impression that American policymakers had no eyes or ears for new ideas. The most dramatic of these alternatives is preventive war. Derived from the proposition that America cannot survive if the Soviet Union and Communist China continue to exist, preventive war is the policy of the desperate fringe of American leadership. Consciously or unconsciously, those who accept the logic of that program have admitted the inability of capitalism to offer a functioning alternative to socialism.

A far more sizable group of American leaders insist that the cold war can be won, and the empire sustained, by continuing the existing policy. This outlook might appear, at first glance, to be almost wholly ideological. Examined more closely, the recommendation is not totally unreasonable. Given the continuation of the rather apparent desire in Moscow (and Peking) to ease tension and develop the socialist bloc for the next 15 or 20 years, a rather more subtle and sophisticated version of present American policy might well work for another generation. At the end of that period, however, the crisis would return even more accentuated.

Two other alternatives are based on a recognition of the fact that capitalism in America is on the wane. As one would expect, these approaches are advocated by a far smaller segment of the American elite. It would be a mistake not to realize, however, that some of them are very high in the hierarchy. Although these two proposals are logically interconnected, it is useful to describe them separately. Starting from the assumption that America has reached the near edge of socialism, and observing postwar events in England, one alternative is for American leaders to define and administer the first stages of this transformation. Recognizing the wisdom of Bismarck's classic remark —"If there is to be a revolution, we would rather make it than suffer it"—this alternative offers many attractions to men whose reward has long ceased to be the size of their bank account. The challenge of creating a democratic socialism—of proving Marx correct after all—could well exert a growing appeal for some members of that group. After all, no one can read Joseph Schumpeter very closely without realizing that this alternative exerted a strong attraction for him.

Accepting the same basic analysis, another alternative emphasizes continued capitalistic economic expansion through the United Nations Organization. Working through existing or new institutions, and con-

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fining American rewards to an equitable return on investment funds and the broad benefits of subsequent trade with *all* nations, such an alternative might very well sustain present American capitalism for a generation—perhaps even longer. If followed for that length of time, however, such a program would exert tremendous pressures toward socialism in the United States. At some point, therefore, American leadership would have to choose between initiating socialism or going through with a showdown at home and abroad. Both practically and ideologically, however, the momentum built up through close and intimate cooperation with the United Nations for a period of years would very probably incline the decision toward a peaceful transition to socialism.

The last alternative is of course a frank acceptance of socialism. It is not only the rational economic choice, it is the option most in keeping with the original principles of the Open Door Policy itself. Of course America needs to trade with other countries in a free and open fashion. Of course America should respect the integrity of other societies and help them fulfill their own ideals and needs. In these respects, at any rate, the original Open Door Policy was sane and equitable. But those objectives can never be attained by trying to build and sustain an American empire of the kind this nation has developed since 1900. They can only be realized through the open fellowship of a socialist commonwealth.

As is true between individuals, so also among the nations, peace means the same thing as Live and Let Live, which also means the same thing as a world made safe for democracy. And the rule of Live and Let Live means the discontinuance of animosity and discrimination between nations. . . . At the same time it involves the disallowance of all those class pretensions and vested interests that make for dissension within the nation.

Thorstein Veblen, The Vested Interests and the Common Man, *1919*

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THE DISTRIBUTION OF INCOME

BY LEO HUBERMAN

In recent years there has been a marked shift upward in the pattern of family income distribution in the United States. Where formerly that pattern was best illustrated by the shape of a pyramid, today it would more closely resemble the shape of a diamond.

There were 43,714,000 families in the United States in 1957.* Their distribution, by total money income, is shown in the table below:

Table I—Distribution of Families by Total Money Income, 1957

Family Income	*Number of Families*	*Percent in each group*	*Cumulative percent*
Total	43,714,000	100.0	100.0
Under $1,000	2,823,000	6.4	6.4
$1,000 to $1,999	3,712,000	8.5	14.9
$2,000 to $2,999	4,206,000	9.6	24.5
$3,000 to $3,999	5,160,000	11.8	36.3
$4,000 to $4,999	6,158,000	14.1	50.4
$5,000 to $5,999	6,352,000	14.5	64.9
$6,000 to $6,999	4,509,000	10.3	75.2
$7,000 to $9,999	7,126,000	16.3	91.5
$10,000 to $14,999	2,856,000	6.5	98.0
$15,000 and over	812,000	1.9	99.9
Median income . . . $4,971			

[U.S. Department of Commerce, Bureau of the Census, Series P-60, No. 30, December 1958. Based on Tables A, 1, 6. All figures rounded out.]

* There were, also, some 10,313,000 unrelated individuals. The term "family" as used by the Bureau of the Census refers to "a group of two or more persons related by blood, marriage, or adoption and residing together." The term "unrelated individuals" (also designated as "unattached individuals" in some income studies) refers to persons other than institutional inmates "who are not living with any relatives." For an excellent discussion of the technical comparisons between income data compiled by the Bureau of the Census, the Federal Reserve Board, and the Office of Business Economics of the Department of Commerce, see "The Relation of Census Income Distribution Statistics

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The base of the pyramid of income distribution in former years was the preponderant number of families in the lowest income bracket. Thus, in 1929, almost 60 percent of the families were in the under $2,000 category; in 1957, as you can see from the table above, the figure was only 14.9 percent.

At the apex of the pyramid, in 1929, in the $10,000 and over group, there were only 2.3 percent of the families; the corresponding figure for 1957 was 8.4 percent.

But it is in the middle income groups where the most significant changes have taken place. If we arbitrarily designate the $4,000 to $7,000 range as the middle income group, you will note in Table I that this category included some 38.9 percent of all the families; the low income group, zero to $4,000, comprised 36.3 percent; and the upper income group, $7,000 and over, totaled 24.7 percent. Only in the last few years has it been true that there were more families in the middle income groups than at the bottom. It is this new factor, the march of families up the income ladder, which has changed the income distribution picture from pyramid to diamond shape.

The upward trend in the distribution curve of family income can be seen in another way. A generation ago, in 1929, more families—21.5 percent—were in the zero to $1,000 bracket than in any other; by 1950, the family income most commonly received was in the range of $3,000 to $4,000; by 1957, it had risen to the $5,000 to $6,000 bracket, with the median family income at $4,971—this was the amount of income which divided the total number of families into two equal groups, one having incomes above and the other below the $4,971 figure.

But the upward trend in income was accompanied by changes in prices. Did the rise in income mean people were better off, or was their greater money income eaten up in its entirety by higher prices? Translated into *real* income, the spectacular upward trend is not nearly so dazzling. Nevertheless there has been an increase in real income. As compared with ten years ago, in terms of 1957 dollars, average incomes after taxes were $870 higher; if we go back to 1929, the increase comes to $1,570. The table on the following page gives the figures for families and unattached individuals.

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to Other Income Data," by Selma F. Goldsmith, in *An Appraisal of the 1950 Census Income Data,* A Report of the National Bureau of Economic Research, Princeton University Press, 1958.

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Table II—Average Family Personal Income Before and After Federal Individual Income Tax Liability

Year	Number of families and unattached individuals (in millions)	Average (mean) personal income per family and unattached individual			
		Before Tax		After Tax	
		In current dollars	In 1957 dollars	In current dollars	In 1957 dollars
1929 . . .	36.1	$2,340	$3,940	$2,320	$3,910
1947 . . .	44.7	4,130	5,120	3,720	4,610
1950 . . .	48.9	4,440	5,180	4,070	4,750
1951 . . .	49.5	4,900	5,360	4,420	4,830
1952 . . .	50.2	5,120	5,500	4,570	4,910
1953 . . .	50.5	5,390	5,720	4,810	5,100
1954 . . .	51.2	5,360	5,640	4,840	5,100
1955 . . .	52.2	5,600	5,870	5,050	5,290
1956 . . .	52.8	5,910	6,110	5,310	5,480
1957 . . .	53.5	6,130	6,130	5,480	5,480

[U.S. Department of Commerce, Office of Business Economics, *U.S. Income and Output,* Government Printing Office 1958, Table 4, p. 43.]

There was, then, some improvement over the years. But it was not nearly so tremendous as to warrant the oft-repeated assertion that "we are all well off now." Ours is not yet the "affluent society," not by a long shot.

The statistics prove it. The Community Council of Greater New York puts out, each year, its "Annual Price Survey Based on a Family Budget Standard," which measures "the cost of living requirements in New York City for self-supporting families of given size and composition." For a family of four persons—an employed man, his wife, boy 13, and girl 8—in 1957, the budget required to make the purchases "sufficient to maintain current standards of adequate consumption at low cost" came to $4,072.64. If federal and state taxes, old-age and survivors' insurance, and disability insurance were included, the total cost was $4,511.52. That this was indeed a modest budget was shown by the amounts allocated weekly to:

Food	$29.10
Clothing	9.25
Housing	19.99

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Transportation	3.13
Medical Care	5.22
Personal Care	2.06
Other goods and services (recreation, education, tobacco, life insurance, union dues, gifts, etc.)	9.57

Consumer prices in New York City are lower than those for the country as a whole, so the after-tax budget figure of $4,511.52 for a 4-person family may be taken as a conservative one. Making allowance for the fact that the average size of a family in the United States is 3.65, we arrive at the figure of $4,060.38, necessary annual income for an American family—say $4,000. That is, indeed, the estimate given by *Fortune* in its June 1959 issue (p. 136): "It is broadly true that families with after-tax incomes under $4,000 are obliged to spend just about everything on the necessities of food, clothing, shelter, transportation, and medical care."

Now how many families in the United States did not have $4,000 after taxes? Let us take a closer look at Table I giving distribution of income *before* taxes. Note that 36.3 percent of all American families were under the required amount; that 24.5 percent, or roughly one in four families had incomes under $3,000—less than $60 per week. Maybe these families are "affluent" compared with the families in the underdeveloped regions of the world, but in the United States in 1957, a family income of $60 per week meant poverty. It meant that these families were ill-fed, ill-housed, and ill-clothed. It meant that they were below the minimum necessary for healthy and decent living. In a nation in which $4,000 after taxes was needed for just the necessities of life and more than one third of all families had less than that amount; where one quarter of all families had $1,000 less than the required amount, it is correct to say that poverty is still "a massive infliction," Professor Galbraith to the contrary notwithstanding.

No, the poor are still very much with us and they don't live in accordance with what is assumed to be "our high American standard of living." Housing is a prime example of the nation's failure to provide for minimal needs. One family out of every four lives in a house that is dilapidated or overcrowded or both. The laws of the more progressive dairy states require better shelter and sanitation for cows than millions of our citizens enjoy. "Today some 17 million Americans live in dwellings that are beyond rehabilitation—decayed, dirty, rat infested, without decent heat or light or plumbing. . . . The problem

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afflicts all our metropolitan cities, but it is most severe in the biggest, richest, most industrialized." So say the editors of *Fortune* in their book *The Exploding Metropolis.*

But doesn't the big "housing boom" mean that we are fast getting rid of slums? Not according to Alexander L. Crosby, editor of *The Housing Yearbook,* published by the National Housing Conference. In a memorandum just received, he writes:

> New slum areas are found in every large city. Families displaced by slum clearance have to move elsewhere, and Congress sees to it that there isn't enough low-rent public housing for them. So they go into the big old houses of the 19th century, with a dozen families occupying space designed for a single household. Or they find shoddily built little houses on a 25-foot lot.
>
> The older slums keep getting worse inside, despite the improved exterior appearance—the result of covering rotten siding with a tar composition paper that looks like bricks or shingles. It is not rare to find partitions or even outer walls so decayed that they can be pushed several inches with one hand.
>
> Slums persist because only a minority of families can afford the cheapest new houses. *The Housing Yearbook* survey of the lowest-priced 3-bedroom houses of 1959 showed that the median among 25 cities was $10,990. Under the sound assumption that no more than one-fifth of the family income should go for housing and utilities, a family should make $6,600 to qualify for a $10,990 house. Only 30 percent of the families in the U.S. earn that much.

If the poor can't afford to buy a cheap new house, they can always rent rooms, can't they? Yes, they can, but as every student of the housing problem knows, slum rents are *not* cheap. In a revealing article in the *Nation* of February 14, 1959, entitled "How To Build A Slum," by Timothy J. Cooney, we learn:

> In 1957, Governor Harriman of New York made a tour of Harlem and discovered that Negroes, living in highly developed one-and two-room slum apartments, were paying $20 to $25 a week per room. If they didn't like the price for what they were getting, they were free to drop dead. The ghetto is a seller's paradise.

What Governor Harriman learned was long known to Charles Abrams, housing authority and former New York State rent administrator. He has repeatedly pointed out that many Harlem slums command higher rents per room than luxury apartments on Park Avenue.

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High rent for slum housing is one of the costs poorer Negroes must pay for the segregation policies imposed on them. The extent of the injustice can only be realized by another look at family income figures. The table below divides the total of 43,714,000 American families into its component parts: white 39,692,000 families; non-white 4,022,000 families:

Table III—Distribution of Families by Total Money Income *By Color,* 1957

Family Income	*Percent in each group*		*Cumulative Percent*	
	White	*Non-white*	*White*	*Non-white*
Under $1,000	5.2	18.6	5.2	18. 6
$1,000 to $1,999	7.6	17.4	12.8	36.0
$2,000 to $2,999	8.8	17.3	21.6	53.3
$3,000 to $3,999	11.5	14.8	33.1	68.1
$4,000 to $4,999	14.4	11.0	47.5	79.1
$5,000 to $5,999	15.1	8.8	62.6	87.9
$6,000 to $6,999	10.9	4.5	73.5	92.4
$7,000 to $9,999	17.4	6.3	90.9	98.7
$10,000 to $14,999	7.1	1.2	98.0	99.9
$15,000 and over	2.0	...	100.0	99.9
Median income $4,971	$5,166	$2,764		

[U.S. Department of Commerce, Bureau of the Census, *op. cit.* Based on Tables 2, 12.]

Nothing serves better to illustrate the horrible economic penalty exacted from the Negro population by discrimination than this table of figures. Observe that while one third of the total number of white families, 33.1 percent, was under the $4,000 mark, the number of Negro families in the poverty range was 68.1 percent, more than double the proportion of whites. At the other end of the income scale, $10,000 and over, there were 9.1 percent of white families; only 1.2 percent of Negro families. The median income for whites was $5,166; for Negroes it was hardly more than half that figure, only $2,764.

Note the important difference in the ascent up the income ladder—the number of white families increases in each category right up to the $6,000 to $9,999 group, while the number of Negro families just as surely marches steadily downward.

With the minimum wage in the United States still pegged at $1

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an hour, and with some 20 million workers not yet covered by the law, with unemployment hovering around the 3.7 million mark, one would expect that the words "affluent society" would not tumble out so often from the lips of those who see only a multitude of shiny gadgets, bought with borrowed money, everywhere around them. Every once in a while the real truth—quickly forgotten if read at all—makes its way into the press. Thus a story which appeared in the *New York Times* of May 3, 1959, began with this illuminating paragraph: "In the 'affluent society' of 1959 America, 7,189,000 persons—4 percent of the population—are receiving public relief in one form or another."

And on March 11, 1959 Representative John M. Slack, Jr., Congressman from the "distressed area" of West Virginia, told the members of the House Banking and Currency Committee about a tabulation he had requested from the Department of Agriculture:

> It reported that there were 210 counties, 7 percent of the counties in the United States, in which 15 percent or more of the population received surplus commodities under the classification of needy persons. These counties are distributed through 24 states. . . . Surplus foods are distributed to needy persons in 45 states, although the percentage of recipients is notably small in some. The percentages are excessively high in some other states, however, and it is noticeable that those are the very states which have been hardest hit by chronic unemployment due to technological progress. The top 10 states according to the number of recipients, are as follows: Pennsylvania, Michigan, New York, Mississippi, West Virginia, Kentucky, Oklahoma, Arkansas, Tennessee, Louisiana. . . .
>
> The bald statement that a needy person receives surplus agricultural commodities means that he receives currently just five items—butter, dry milk, rice, flour, and cornmeal. . . .
>
> In the areas of chronic unemployment thousands of families exist on these commodities alone, and in my own district I have talked with families who have not had fresh milk, eggs, meat, or citrus juices for periods ranging up to 2 years. These Americans actually exist on a diet less than half as nutritive as that provided for the occupants of displaced persons camps in Europe after World War II.

This is, of course, the diet of the most desperately poor people in our country, those on the lowest rungs of the income ladder. It is

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cited merely to give balance to the picture of income distribution in the United States. At the top end of the ladder, in the upper incomes where the big boom had its most marked effect, there are families who are as disgustingly rich as some of their countrymen are ignominiously poor. Their style of living was sardonically detailed in an excellent article by Frank Bellamy in the *American Socialist*, February 1959. They are in the market for such items, Mr. Bellamy relates, as a toy "14-foot high stuffed giraffe, tagged at $400. And in New York, at Van Cleef and Arpels you can get a gold, jewel-encrusted zipper for a cool $6,000. . . .[That's the annual income, you will remember, which 64.9 percent of all American families did not reach in 1957.] Another high-class New York store offers a solid gold checkbook holder for $210, while Saks Fifth Avenue in Detroit has an alligator-hide garment bag for $1500. . . . Mink-trimmed can-openers, dusters, tooth brushes, and bathroom scales are on the market. . . . It is characteristic of those who put on the dog that they treat dogs better than humans. Gerard B. Lambert, pharmaceutical millionaire, built a $40,000 house for his dogs near Miami."

Obviously it takes lots of money to live in this idiotic fashion. But the really rich people in our society have lots of money. They represent a small number in the "and over" group in the category of $15,000 and over, of which there were only 812,000 families in 1957. The table below* shows the percentage distribution of total income which went to the various categories:

Table IV—Distribution of Consumer Units (i.e. families and unattached individuals) by Family Income Level, 1957

Personal income in current dollars (before income taxes)	*Percent of families and unattached individuals*	*Percent of aggregate income of $331.8 billion*
Under $2,000	14	3
$2,000 to $3,999	22	11
$4,000 to $5,999	25	20
$6,000 to $7,999	17	19
$8,000 to $9,999	9	13
$10,000 to $14,999	8	15
$15,000 and over	5	19

[U.S. Department of Commerce, Office of Business Economics, *op. cit.* Based on Table 2.]

* These figures are not strictly comparable with those in Table I. For the many technical reasons for the difference, see the book cited in the footnote on page 94.

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Note that the 5 percent of the consumer units in the $15,000 and over bracket received 19 percent of the total income; together with the 8 percent of the units in the $10,000-$14,999 bracket, they received 34 percent of total income.

Now observe that the families and unattached individuals under $4,000, 36 percent of the total number, received only 14 percent of total income. Add to these the 25 percent in the $4,000-$5,999 bracket who received 20 percent of the total income and you get 61 percent of the consumer units receiving 34 percent of total income. That's exactly what the 13 percent at the top received.

In the October 1953 issue of MONTHLY REVIEW I wrote an article on the American standard of living based on the distribution of family income in 1950. Today, six years later, in spite of our so-called "income revolution," we remain a nation of very rich at the top and very poor at the bottom of the income ladder. True, there has been a significant movement upward so that the middle income groups are in the majority but we have not yet become the "affluent society" observers tell us we are. Nor will we become so until a far more fundamental change has come to American society.

The concluding paragraphs of my 1953 article on income distribution seem to me to be still valid for the situation today. I repeat them here:

> The United States, like every capitalist country, is in reality two nations. One, those who work—without living; the other, those who live—without working. For the one the "high standard of living" is a fraud; for the other the standard of living is not high—it is so disgustingly vulgar as to be degrading.
>
> This state of affairs is not just a happen-so; it was not true of 1950 alone; it is true today; it will be true in 1980 too—if we still have capitalism. But we *can* abolish slow starvation, insecurity, "the dreary business of being poor." We *can* produce and distribute all the things our people need to make life worth living a reality. We can do it, however, in only one way—by supplanting capitalism with socialism.

Capitalism turns men into economic cannibals: and, having done so, mistakes economic cannibalism for human nature.

—*Edward Hyams,* New Statesman, *March 28, 1959*

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THE INNOVATION INDUSTRY

BY PHILIP MORRISON

Economists, both orthodox and Marxian, have traditionally viewed the rise of novelty in the forces of production as one social consequence of the economic nature of society, to be regarded as a diffuse but general condition of economic life, and not as the deliberate product of a particular industry. It is hard to doubt that this causal relationship still holds. Perhaps in Veblen, with his concern for the "state of the industrial arts," one can find the beginnings of a new trend. In any case, there is nowadays quite a different emphasis abroad. In the *New York Times* or in *Fortune,* you can easily read a new text: the driving force of the economy today is the directed, profitable, institutionalized search for novelty. Here are the endless frontiers, not only of ideas, but of gain. Here is the answer to the "falling rate of profit," the "tendency to underconsumption," the need for new investment outlets. Read Peter Drucker or Sumner Slichter, or even the more technical literature, the burden is the same. To Professor Slichter, "technological research has become a large activity that introduces fundamental changes into the operation of the economy." It is said that the flow of innovations, like the growth of population, can be counted upon to offset the stagnation envisioned by the critics of capitalism. Innovation will work now in this industry, now in that, always providing a new outlet for the investor, a new titillation for the consumer, a new job for the fresh graduate and the hopeful young father. Research pays off; even the promise of research pays off in the speculative discounting of the stock market. The director of research of one considerable firm told me that the research budget of his firm was determined in large part by the eagerness of its directors to appear to the "investor" as a growth company, spending heavily on research.

How sound is this conclusion? It would be presumptuous for a physicist to seek to solve this large economic problem; but it is not out of place to examine how the innovation industry looks from the point

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of view of an American immersed in the stream of innovation.

I should dislike to leave the impression that the conscious nurturing of economic novelty by a maturing science is unimportant; on the contrary, it is my view that it may be no less significant than the cheerful editor of *Fortune* thinks, and that it might be decisive alike for capitalist and for socialist societies. But that it will by itself guarantee an endless growth for economic activity in a market-dominated economy seems to me doubtful on both empirical and theoretical grounds.

The history of the issue is well known, or at least well agreed-on. The introduction of the steam engine or the machine loom was mainly the work of individual innovators, or of men who became manufacturers out of the success of their first innovations. Science, since the seventeenth century when navigational problems stimulated the rise of dynamics, was not strongly invoked for economic innovation. Indeed, science was impotent to help very much the metallurgist or the brewmaster or the glassmaker, and the machine-tool designer needed science only rather little. The founder of the firm of DuPont, for example, was a student of the great Lavoisier. His firm certainly was an innovating one. But it took a whole century, until 1902, before *any* sum of money appeared on the books of the firm as committed to research. By now, research has left the competence of the amateur or the devoted inventor and has become embodied in large, well-equipped laboratories, where many experts are gathered to spin out novelty in product or process. Whole firms have arisen, like Arthur Little or the Batelle Institution, which sell research to buyers too small to assemble the large staff needed. There is today a real industry of innovation. This new industry represents a fundamental change.

That history is plausible, and in most respects even true. There are, to be sure, some disturbing discrepancies. Thomas Edison of Menlo Park, perseverant and ingenious, ran a firm very like Little or Batelle in spirit, and perhaps even more successful, before the turn of the century. The German dyestuff industry employed large staffs of chemists from the 1870s, if not before. The Badische Analin-und Soda-Fabrik spent many millions of dollars and nearly twenty years seeking a method of synthesis for indigo, which they found in the nineties. The German pioneers of synthetic organic chemistry directed large university laboratories, heavily financed by, and sending their many well-trained graduates to serve, the great chemical firms. All of this transpired a generation before World War I. It is hard to see any

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important qualitative difference between the innovation industry of Imperial Germany and that of contemporary America, though admittedly the context is almost wholly unlike. The sole important difference, within this specific area, is one of scale. Whether the cumulative effect of scale, with the maturity of science to-day and its much higher rate of change, means a fundamental difference in the impact of innovation upon the economic system is the question.

Let us look in some detail at the innovation industry in America. It is characterized by two properties which together, I think, single it out from other industries. First, it has a very high rate of growth. In this it resembles antibiotics or television. Second, it is dominated by federal government funds. In this it resembles, say, the airlines. A little table showing the growth of the industry over the last two decades will make the point clear (figures are rounded and, for 1960, estimated on the basis of latest available data):

SOURCE OF RESEARCH AND DEVELOPMENT FUNDS
(millions of dollars)

	Total	*Federal Government*	*Industry*	*Universities*	*Gross National Product (billions)*
1940	275	75	150	50	100
1950	3,100	1,100	1,800	200	285
1960	7,450	4,200	3,000	250	500

The dynamic quality of the industry is plain: while Gross National Product (GNP) has been expanding by a multiple of five, the innovation industry has grown by a multiple of 27. Almost as striking is the very large and growing share of federal funds in the industry. (An additional point not brought out by the table is the increasing importance of research and development in the overall federal budget: in 1940 R and D accounted for 1 percent of the budget, in 1950 for 2.8 percent, and in 1960 the figure will be close to 5 percent.)

It is important to recognize, however, that most of the federal money is spent by industrial contractors and not by government laboratories. The government is a heavy consumer of innovation or subsidizer of the industry, depending on how you choose to regard it or on the particular field of innovation considered. The point emerges clearly from the table on the following page.

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RESEARCH AND DEVELOPMENT FUNDS IN 1953

(percentages)

	Funds contributed by	*Funds expended by*
Federal government	51	17
Industry	44	71
Universities	4	11
Foundations	1	1

Next we may ask what sort of innovations are being bought, both by government and by private industry. The new industries are of course the greatest producers of novelty. The chemical industry contains many firms whose products are less than ten years old. The very basis of electronics or of aviation lies wholly within the century, and everyday experience convinces one that these industries change at remarkable speed. Like the government-owned atomic industry, they are the very children of science. They are the prototypes of endeavors in which innovation is the key to competition, even to survival. The figures bear this out. They tell in addition another story: the lion's share of government funds goes into areas connected with military innovation. A table can be constructed which will indicate at once both the military nature of government and much industrial innovation, and the expected relationship between innovation and the new scientific industries:

RESEARCH AND DEVELOPMENT FUNDS SPENT BY VARIOUS INDUSTRIES, 1956

(percentages)

Industry	*Total funds spent, incl. government*	*Private funds spent*
Aircraft	32	8
Electrical (incl. electronic)	18	14
Machinery	9	11
Petroleum	5	7
Chemical	8	15
All other	29	45
Total	100	100

When one realizes that private expenditures very largely anticipate federal purchases in both the electrical and aircraft industries, it is evident that innovation is heavily military in purpose.

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Another viewpoint yields a very similar result. We can tabulate the federal funds expended by the agencies of government which in fact spend them, or place out the contract to others. But before we do so, there is an important problem of interpretation to be considered. It must be remembered that the genuinely innovative portion of the overall research and development effort frequently requires no more than a small fraction of the available resources. The invention, the scientific discovery, may cost very little compared to the heavy costs of development into economic significance, which may require large-scale trials and repeated failure. Indeed, this fact colors all the empirical data in this field, for example, the tables we have presented. Sizeable discrepancies are found among the statistical data because it is hard to define such abstract activities as "research and development." The present climate induces reporting firms and agencies to report as "research" what might better be regarded as the simple engineering of their own products, and as "development" a great many costs of design, testing, and evaluation which really ought to be charged to the cost of the specific product and not to innovation. For this reason, the tables here displayed will differ from the estimates of others. The discrepancies, however, are not so great as to be misleading.

The assignment of expenditures by purpose is, therefore, certainly not easy or unambiguous. With this qualification in mind, we can present another table which illuminates the military character of our present innovation industry.

EXPENDITURE OF FEDERAL RESEARCH AND DEVELOPMENT FUNDS BY AGENCY, 1959

Agency	*Percentage of total federal funds spent*
Agriculture	3.0
Health, Education, Welfare	5.0
Commerce	0.6
Interior	1.5
Natl. Science Foundation	1.5
Other civilian	0.4
Total civilian	12.0
Atomic Energy Commission	19.0
Natl. Aeronautics & Space Admin.	3.0
Defense Department	66.0
Total	100.0

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There is, of course, more than a little innovation of value beyond military applications within the giant sums spent by the AEC and the Defense Department. It is not easy even to guess at the amount, but one way to estimate this very roughly is to look at the so-called basic research done with government funds. The AEC allots about a tenth of its expenditure to basic research, the NASA about a fifth, the Defense Department about a fiftieth. We may assign all this work to civilian ends—since basic research is defined as "directed toward increase of knowledge in science . . . where the primary aim is . . . a fuller knowledge rather than a practical application." This would increase the total of all the civilian agencies (which, by the way, do much applied as well as basic work) to some 15 or 16 percent of the total federal expenditure. Some of the development done, especially by AEC, but even by the Defense Department, ought to be assigned to peacetime ends. Examining the detailed budget for such clues as the sort of laboratory in which the work is done, it is possible to make a very tentative guess that another 10 percent of the total might reasonably be counted as valuable beyond military ends. This sums to about 25 percent, or as much as $800 to $900 million. If we roughly add the private expenditure of the *non-defense* industries and *all* the spending by the universities, we can estimate total national expenditures for civilian innovation at somewhere around $3 billion, almost certainly an overestimate. This represents a growth of somewhat over ten-fold in dollar volume since 1940, or roughly double the rate of growth of Gross National Product. This compares with the five times as rapid growth of total research and development, *including* the military component. Clearly, when the latter is subtracted, the seemingly fantastic dynamism of the innovation industry subsides to a much milder unfolding.

Against this background, the facts can hardly be held to support the more extravagant claims of the heralds of innovation. What changes the United States economy is mainly preparation for war. The Soviet economy would show a similar trend, but probably not so marked.

In a symposium of the National Science Foundation, Professor Slichter has cited an interesting figure: the fraction of individual income after taxes which has been spent on novel "American" forms of consumption has risen from about 9 percent in 1929 to about 13 percent in 1956. His category includes autos, boats, sporting goods, household appliances, and radio and television. During this time the in-

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novation industry has risen from almost nothing. The result confirms the impression that innovation can indeed change society, its means of production, and its ideas, but it does not easily radically affect the social schedule of consumption. The poor people still don't buy very much; the rich still have to invest what they cannot spend. Are we yet different from sober, scientific Imperial Germany?

Innovation in the civilian economy, and the planned obsolescence which it implies, are visible everywhere, but still do not seem dominant economic factors. Much more important are the social-political changes which follow innovation. The steady increase of automation will continue to reduce the employment of factory workers, and of the clerical white-collar class as well, perhaps even more rapidly. Skills, increasingly of an abstract and analytic kind, will be the only desirable property of the commodity, labor. Possibly a kind of labor will still be bought which is unskilled, to be used in special sectors of low productivity. The danger of a split of society on these grounds seems fully as real as the hope of perpetual expansion of the market by novelty. Against this danger the American system can place its traditional social mobility and its long-standing labor-won and business-rationalized public education. It needs only the naming of these problems in an America of school crisis and discrimination to point the lesson.

One may come still further from the economic world to talk about social trends. The growth of innovation is endless, not in the domain of goods and capital, but surely in the domain of knowledge and idea. Here lies another test for the new America, post-1960. Is the advertisers' culture fit for the men and women who will create living cells, stride the moon, unravel the living knot of the brain? It seems doubtful, at best. A couple of years ago, the incoming freshmen at MIT and at an ordinary college (Ivy League) were given similar questionnaires to learn their ambitions and their criteria for success. The MIT boys, no less middle-class than the others, showed the spirit of the pioneers. They were directed from within; they wanted to make new things, to learn how to create, to improve their minds as fine tools. The others acted out the sociologists' drama: they wanted prestige, the approval of their friends, making "good contacts," the appearances of success. It seems to be true that in the sphere of real production, in engineering and in science, the objective standards still retain their hold. Only in the superstructure, which doesn't really have to function, does the new set of ideas find itself at home. The test of the new American capitalism will be its power to offer to its innova-

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tors the chance to continue with their creativity. And, in the distance, other ways of organization will be noted, and compared.

There is a final word to write. The innovation industry is harder than any other to fit into a planned socialist society. For novelty by its nature is hard to plan. At the same time, innovation is too complex in the modern world to leave to the accidents of the market place. Even American innovation we have seen to be strongly supported by the state. It is not yet clear that Soviet innovation fits smoothly into Soviet plan. The Soviet advance in education and in technology has been swift. It shows no signs of flagging. And yet it is not unfair to say that, in science at least, few really brilliant innovations have come from the Soviets. This is equally true, it seems to me, in art, in music, in literature. Reasons may be there in plenty: time is not the least of them. But it appears as well that the problem of a rational scheme for the social organization of novelty is still unsolved. The two systems must seek it, each along its own historical path. It is not too bold to imagine that the solution will mark the maturing of the social order of the next generations.

A NOTE ON SOURCES

By all odds the most valuable source of economic information on the innovation industry is the National Science Foundation. This federal organization not only awards funds in support of basic research in all fields of science, but wisely construes its task to include the measurement and study of research itself. Insofar as any agency may be said to concern itself with research planning in the long run, the NSF does. Its annual reports, issued as a series entitled *Federal Funds for Science,* are definitive studies of the federal component. Most of the data in this article on federal research comes from No. VII of this series, issued in 1958, and obtainable from the Government Printing Office as NSF-58-30.

Under the sponsorship of the NSF, a conference of some 400 economists and scientific administrators from all parts of the economy met in May of 1958 to discuss the relations between research and development and the economy at large. The record was issued as *Proceedings of a Conference on Research and Development and its impact on the Economy,* NSF-58-36. This set of more than a dozen papers is uneven in interest and scope, but it contains excellent summary material and particular papers are of special interest, especially that by Professor Slichter cited above, and those by R. E. Burgess and M. R. Gainsbrugh.

An often-cited NSF publication, *Research and Development in American Industry, 1956, A Preliminary Survey,* is of value. It must be noted that the different definitions employed make it difficult to compare those figures, which form the basis of the specific industry figures given above, with the later federal data. This difficulty is discussed in NSS-58-30, p. 22. It is hoped that the tables above represent reasonable inferences from the conflicting data; they will not always agree with the various publications in this field.

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NOTES ON THE CULTURE OF THE NEW CAPITALISM

BY LEO MARX

The idea of socialism is fading out of the American consciousness. I do not mean to imply that it ever was one of the brightest lights in our political thinking, but right now it is getting very dim indeed. In a recent review of a collection of essays from *Dissent,* a socialist journal, Dwight Macdonald has some interesting things to say on the subject.* He notes the mechanical quality of mind, the lack of individual accent in the prose of some contributors. "The difficulty seems to be," he says, "that the very idea of Socialism is no longer interesting; it is at once banal and ambiguous." Twenty years ago the word "socialism," no matter what one's politics, had an arresting, controversial, imperative ring about it; now it has a tired, muffled sound. Macdonald does not try to explain all this, but with the wooden prose of contemporary socialists in mind, he asks a cogent question: "Is it," he asks (assuming that prose is a measure of feeling), "because Socialism is no longer, pro and con, connected with our actual life?"

The inescapable answer, in my opinion, is *yes;* the ideas of socialism have been allowed to get stale. But I hasten to add that I do not think the answer need necessarily be yes. It is conceivable that socialist thought can be made relevant, once again, to the facts of American life. For that to happen, however, socialists will have to re-examine certain assumptions that they have been making for a long, long time. Of those ideas the one I will emphasize in these notes is the traditional socialist attitude toward mind itself.

I

The classic view is that of Karl Marx: "It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness." A large part of the seeming irrelevance of socialist thought today can, I believe, be traced to this celebrated dictum. Like many other presuppositions of the

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* *The New Yorker,* March 28, 1959.

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socialist movement, this one is grounded in European experience of the nineteenth century, and in a catastrophic interpretation of the industrial revolution. In that context, as a matter of fact, it makes a good deal of sense. After all, if one is chiefly concerned with political ideas, and if one compares, say, the attitudes of factory workers in Birmingham in the 1830s with those of their employers, then of course the principle applies. Perhaps this is only another way of saying that in moments of grave urgency ideas are more patently ruled by circumstance.

Similarly urgent conditions help to explain why American intellectuals endorsed the simplified Marxian conception of mind a century later. In the 1930s events once again seemed to confirm the old catastrophic prophecy. Industrial capitalism looked to be on the verge of collapse, and ideas accordingly were shaped to the pattern of historical circumstances.

But capitalism has not failed. Indeed, since World War II the direct pressure of economic need upon our daily lives has been greatly diminished. With the end of fascism in Europe and depression at home, sources of the most acute political anxieties of the 1930s, American intellectuals lost interest in politics. Of course there were other contributing factors, such as the discrediting of the USSR as a model of socialist achievement. But the main point is that today the problem of productivity in America apparently is solved, and therefore socialism, if conceived as a plan to make the economy work, seems quite irrelevant.

But this is not to imply that all our intellectuals have joined in the neo-Pollyanna rites of the "American celebration." Many of them are just as skeptical about the quality of life in this country as were the socialists of the 1930s. Today, however, their skepticism is not directed at the economy but rather at the culture, that is, the collective consciousness. They are concerned, seriously and I think justifiably, about what our society is doing to our minds. For such people the socialist tradition, with its tacit depreciation of the significance of consciousness, seems to have little or nothing to offer.

To all this the orthodox socialist has an answer. He says that the current retreat from politics merely verifies the classic doctrine. It is a luxury made possible by a temporary prosperity, and it will last only until capitalism, presently sustained by a war economy, reaches the fated crisis. But let us suppose, for the sake of argument, that he is wrong. Let us grant, moreover, the most hopeful view of the

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"new" capitalism that we can imagine: the business cycle is a thing of the past; the standard of living will continue to rise at the present rate, and in twenty years most Americans will be at least as well off as the middle-income group right now. I want to suggest why, even if all this should come to pass, we cannot afford to let go of the tradition of socialist humanism.

II

The idea of abundance as the distinguishing feature of American life is not new. It can be traced back to the age of discovery. But recently the facts have been catching up with the ancient dream, so that now we are developing what could be the first genuine economy of plenty in history. Our entry into the age of affluence has been the occasion for a large-scale reappraisal of society. I am thinking of the work, for example, of John Kenneth Galbraith, C. Wright Mills, David Potter, and David Riesman. Although their views differ in many respects, all of these writers are interested in the character of a society that enjoys a more or less permanent state of material abundance. Potter's study, *People of Plenty, Economic Abundance and the American Character,** deserves to be much better known than it is. He argues that many singular features of American life—even including that elusive entity, the national character—features which hitherto were attributed to democracy or the influence of the frontier prove, on inspection, to stem chiefly from the simple fact of growing material wealth. Particularly relevant here is Potter's discussion of what he calls the unique "institution of abundance." Having expounded his view that abundance is a major force in American history, he asserts that a force cannot be considered of major historic importance unless it produces its own "characteristic institution." What, then, is the characteristic institution of our affluent society? Potter's answer points directly to that shadowy sphere where capitalism and mass culture meet: the advertising industry.**

A century ago modern advertising did not exist. It is true that there were advertisements, but they were paid for by retailers seeking

* Originally published in 1954. Paperback edition (University of Chicago Press), 1958, $1.35.

** My discussion of advertising is strongly indebted to Potter, especially pp. 166-189, and to an unpublished dissertation by Warren Olson, "The American Advertising Man: A Study of His Attitudes and Values," University of Minnesota, 1954.

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to reach a local market. What gave the first real impetus to advertising was the idea of a standard brand aimed at a national market. Large-scale advertising began in the 1880s, and by 1951 the American people were spending $6,548 million a year on ads, a billion and a half more than on education. By 1956 the advertising expenditure reached about ten billion, and it now seems to be growing at the rate of around a billion a year. As Potter and Galbraith make clear, there is a perfectly good reason why the growth of advertising coincides with the emergence of the affluent society. As basic human needs are filled, the ad man is called in to *create* wants that would not otherwise exist. His mission is to excite the urge to buy and buy and keep on buying. If he fails, the economy is in real trouble.

In *The Affluent Society,* Galbraith, who also stresses the function of advertising, recognizes the explosive folly of all this. Indeed, his book is an attack upon his fellow economists for their failure to examine their inarticulate major premise, namely, that increasing production of goods (any goods) is necessarily to be desired. The crux of his argument is the distinction, familiar to socialists but unacceptable to "value-free" economic technicians, between production to satisfy genuine human needs and production to satisfy wants—wants provoked by ad men, hired by industries which, since their aim is to sell more and more, must never cease paying to make people want what they do not need. (Is it any wonder that a reigning philosophy of our time celebrates the concept of life as absurdity?) Galbraith notes what a bizarre situation this is. He argues that a society organized around "the Dependence Effect" ("wants . . . increasingly created by the process by which they are satisfied") will have more and more difficulty in providing for human needs unrelated to the profit system. He is thinking of community services: schools, welfare, and so on.

And yet Galbraith's attack upon our affluent society is curiously muted. For one thing, he scarcely touches what would seem to be its greatest menace: the obvious need, if it is to survive, for ever greater control over the public mind. In this society, the zone of danger and uncertainty is not the economy as such, but the minds of potential consumers. Right here Galbraith may be said to provide an economic explanation for that familiar Orwellian nightmare—the vision of a bleak, mindless, undifferentiated culture of robotized consumers. His book is in effect a plea that we curb the idea of business enterprise before it is too late. He wants economic appetites subordinated to the larger welfare of the community, but he leaves the reader with the

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impression that this objective can be achieved by correcting the judgments of economists. This brings me back to the question of socialism.

III

The traditional socialist critique of capitalism has always had what might be called a major and a minor theme. The major theme is economic. It says that capitalism, due to "inherent contradictions," is inefficient and ultimately cannot be made to work. Here the test is productivity. But the minor theme says that productivity is not enough. It says that even if the economic machinery were to function well, it would not be possible, under capitalism, to create a satisfactory human environment. Here the test is the kind of man the society turns out. The profit system tends, in this view, to debase our humanity by treating men as economic objects. Hence the alienation that pervades modern life. Of course when nineteenth century socialists made this point, they had in mind the labor market, where men were treated as objects in the scheme of production. In the truly affluent society, as it is now taking shape, the concept of man as producer will disappear. But what is to take its place? If Galbraith and Potter are correct, if our mass culture continues to develop along present lines, we shall have a style of life dedicated to the image of man as consumer.

Perhaps my implied identification of advertising with all of mass culture will seem far-fetched. Yet we know that newspapers, magazines, radio, and television are all dependent on advertising for the bulk of their revenue. The upshot is an unremitting motion toward standardized simplicity. As Potter contends, the actual TV programs or magazine articles cannot "attain the dignity of being ends in themselves; they are rather means to an end." The end, clearly, is the salesman's pitch. To catch the largest possible audience it is usually necessary to avoid anything that might offend anyone—anything that might cause controversy or confusion or uneasiness. No old-fashioned question of the deliberate suppression of minority opinion arises. Minority opinions are automatically ruled out, along with all other ideas that require maturity of judgment, by the cardinal principle of pleasing the mass. Of course many of the deplorable characteristics of mass culture might be the same if there were no advertising industry. I do not mean to suggest that a state monopoly of communications is the answer. It would obviously create a number of new dangers. At the moment, however, advertising is to the main body of our culture what the pituitary is to the human organism: its function is regulatory.

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In the culture of affluence the ad man, along with his colleagues in other opinion industries, performs a part traditionally assigned to priest and poet. He is the chief image-maker and value-creator. Even now he is called upon to conduct presidential campaigns, advise the designers of automobiles, and counteract the findings of medical research. As our wealth increases, his responsibility for controlling the mind and will of the populace must become greater. It is difficult to imagine what the fully developed culture of affluence will be like. But perhaps the most subtle and elusive product of advertising is the attitude it engenders toward all activity of mind.

In recent years Americans have speculated endlessly about the anti-intellectualism of our people, and about the apathy, confusion, and alienation of youth. Yet it is a curious fact that in such discussions the influence of advertising, one of the most powerful value-creating instruments in world history, seldom is mentioned. Almost from infancy our children are exposed to the teachings of the ad man. He instructs them in the essential meaninglessness of all creations of mind: words, images, and ideas. The lesson is that they have no intrinsic importance, that they are merely instruments of manipulation. It is often said that, after all, advertising does no harm because no one really believes it. But of course that is precisely the point. In treating man as consumer we succeed in debasing what is most distinctively human. Our teachers, to be sure, try to restore the balance, to instill respect for the truth value of thought and language. But in America today education competes with the rich and powerful system of mass communications. What many children must sense is that there are two worlds of ideas: one, associated with school and church and other pieties, which is honest but somewhat ineffectual and drab; and another, associated with television and desirable objects and the empty talk of advertising, which is, above all, the real world.

Under the circumstances, American socialists have a special responsibility. The time has come to apply the tradition of socialist humanism to the problem of mass culture. For over a century the idea of socialism has been associated with the protection of the resources of this earth from the assaults of violent cupidity. But the prize of the moment is the most important of all natural resources: human consciousness itself.

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WORLD EVENTS

By Scott Nearing

Era of Capitalist Contraction

Capitalism struck roots into the economic soil of western and central Europe during the Middle Ages. Menaced by powerful enemies, the immature, tender institution of private enterprise for personal profit grew slowly through centuries of experimentation and struggle for survival. It was only after 1750 that capitalism began the rapid upsurge that reached its high point in the great leap of financial imperialism from 1870 to 1910. The years from 1750 to 1910 may be called the epoch of rapid capitalist expansion—expansion in production, trade, commerce, finance, and the occupation and exploitation of colonial and other dependent territories.

Economic forces, like so many other aspects of nature and of human society, move in cycles. Periods of expansion are balanced by periods of decline. Capitalism throughout its existence has passed through minor cycles of boom and bust which were aspects of the major cycle of its expansion and contraction.

By the early years of the present century, the forces which had been responsible for capitalist expansion had spent themselves. Since 1910 the capitalist world has been contracting, unevenly and spasmodically, but none the less surely.

Evidences of the decline appeared, economically, not in the failure to increase production (scientific and technical advances continued to be noteworthy expansive forces) but in the ferocious struggle to market the increasing volume of capitalist product. First in the home market and eventually in foreign markets the drive-to-market pushed the drive-to-produce from the center of the capitalist stage.

Competition for markets was paralleled by the intensified drive to occupy and hold colonial and dependent territory, and by the armament race that got under way at the turn of the century. Competition was supplemented by another potent social factor: the movement among the colonial and dependent peoples for independence and self-determination.

Production, wealth, and income, still increasing in the capitalist nations, were checkmated by colonial revolts, local wars, and in 1914

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and 1939, by progressively destructive general wars. Colonial rebellion, coupled with nationalism, made imperialism more expensive and less profitable. War disrupted trade and commerce, wrecked capital installations, multiplied taxes, overwhelmed the war-makers with ruinous debts. As war machinery grew in cost and in effectiveness, destruction became more effective than production. Capitalist expansion, during 1750-1910, released forces which made the years 1910-1959 an epoch of capitalist contraction and decline.

Only One Capitalist Big Power

Capitalist decline was uneven. It disrupted some economies profoundly. Others suffered lesser damage. Nations vanquished in war (Germany, Italy, Japan) lost their merchant shipping, their foreign markets and investments, their colonies and overseas bases. All of the great powers, except one, suffered heavy losses of assets at the same time that they increased debt, devalued currencies, and raised taxes.

While most capitalist powers suffered heavy losses during the era of capitalist decline, some neutral capitalist nations waxed fat on war contracts while they entered foreign markets which warring nations had been compelled to abandon. The United States economy gained in both directions. It was neutral during considerable periods of both general wars. At the same time, its position on two oceans, its great economic strength, and its predominant naval power made it possible for the country to capture foreign markets which the European empire had lost during the fighting.

War uncertainties and losses weakened the hold of the empires on colonial and dependent peoples. In Asia particularly, where British, French, Dutch, German, and United States interests had extensive footholds, the Japanese, during the two general wars, expelled all of these powers from part or all of their Asian possessions, only to be expelled in their turn as a result of military reverses in 1944 and 1945. In a very real sense, therefore, the empires weakened their grip on colonial territories by grabbing colonies and dependencies from each other and opening the way for colonial liberation movements to establish independence.

War and colonial revolt thus played a major role in wrecking the structure of imperialism-colonialism with which the European empires had girdled the planet during the 18th and 19th centuries.

Paralleling this rise of nationalism among the victims of 19th-century imperialism was the changing world power situation. After the successful Russian Revolution of 1917 a collective life-pattern de-

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veloped as an alternative to the competitive struggle for pelf and power which had become the outstanding factor in undermining and finally wrecking 19th-century imperialism.

Even local and regional coups, revolts, revolutions, and wars shift the power balance to some degree. General wars have a far greater influence on the power structure. The war of 1914-1918 led to an uneasy, unstable, vengeful peace, dictated by the Allies to the Central Powers. The war of 1939-1945 proved even more upsetting to the power monopoly which the European empires had established at the beginning of the present century. Potsdam treaty-making was dominated by two new powers—the United States and the Soviet Union. In 1910 neither held an important place in the international power structure. In 1945 these two powers occupied the peak of the power pyramid.

Between 1910 and 1959 the international power structure was transformed: first, by the mauling which the great powers inflicted upon each other; and eventually by the birth and spectacular growth of a rival social system. In 1910 the first-line world powers were Britain, Germany, France, Russia, Austro-Hungary, and Italy. Holland and Belgium both possessed large colonial empires. In 1959 the first-line world powers were the United States and the Soviet Union. China rated third.

Here was a world power shift, concentrated in half a century. The shift was away from the 19th-century empires; away from the European center of 19th-century imperialism, to North America and Asia. Still more important, of the half-dozen great capitalist powers in 1910, only one remained a first-line power. Of the three top-ranking world powers in 1959, two were socialist. Before 1910 half a dozen empires girdled and dominated the planet. By 1959, military defeat, economic disorganization, colonial disaffection, and social revolution reduced all of the empires save one to bankruptcy and helpless dependence on United States' largess. Capitalism was world dominant in 1910. In 1959 it was viable in only one of the capitalist countries which had been rivals for world mastery half a century earlier.

"American Century" Fiasco

Capitalist contraction wrecked the Japanese Empire and ruined or down-graded all of the empires of Europe. It lifted the American Empire from its 1910 status as a second-rate power and pushed it to the forefront as the policy maker, spokesman, and leader of world

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capitalism. Unquestioned United States leadership of world capitalism began about 1940. It was taken for granted by the delegates who drew up the United Nations Charter in 1945. Its possibilities were probed during the Marshall Plan era of Washington's handouts to "faithful allies." The Korean war stalemate in 1952, France's Indo-China defeat in 1954, the French-British Suez debacle in 1956, and the withering of NATO, the Baghdad Pact, and SEATO after 1957 followed in quick succession. The Luce-Dulles dream of an American Century evaporated in little more than a decade.

Four factors were responsible for the "American Century" fiasco: (1) The withered flesh and brittle bones of senile capitalism were able to make a comeback of sorts after the heavy losses of 1914-1918. After the catastrophe of 1939-1945 they were too devitalized, fragmented, and scattered to be restored and re-established as an effective way of life. (2) American spokesmen for United States capitalism (and after 1946 for world capitalism) had neither the background nor the experience necessary for world leadership. (3) Scattered remnants of disintegrating capitalism congregated, but never really united, in NATO under Washington's leadership could offer the billion Asians-Africans-Latin Americans emerging from imperial vassalage little more than handouts, military occupation, and dependence upon policies "made in the West." (4) A collective way of life proved to be an acceptable alternative to the competitive struggle for pelf and power.

Capitalist world leadership slipped through the fingers of United States spokesmen and their allies and associates as easily and as surely as world mastery slipped through the fingers of Winston Churchill, his Tory supporters, and Labor Party fellow travellers in the years following 1933. Capitalism was so badly crippled that it could not rally its forces and regain its balance for a supreme effort to re-establish its world mastery. Actually, after 1917, all capitalist attempts to direct historical forces were rear guard actions.

Mussolini's seizure of power in 1922, Roosevelt's New Deal campaign in 1932, Hitler's attempt in 1933, and Franco's effort in 1936 were short-lived endeavors to reshuffle the old cards and thus to instill new life into the obsolete institutions of an acquisitive, competitive social order. On their side, in every case, champions of a revamped, rejuvenated capitalism had prestige, wealth, and armed force, yet they failed, as counter-revolutionary movements are likely to fail in a maturing revolutionary situation.

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Only Fools . . .

There is a saying, backed by a wealth of human experience: "Wise men make a mistake once. Only fools make the same mistake twice." This adage describes one of the major developments in current history.

Let swashbuckling, Big-Business, ballyhoo journalism tell "The World's Biggest Success Story" *(U.S. News & World Report,* June 1 1959): "After a decade of foreign aid, private gifts, American investment and know-how, West Europe, once prostrate, is an industrial giant. Japan is back as the power in Asia. . . . U.S. has sent nearly $300 billions abroad. . . . These dollars went far to set up in business again the war-ruined countries of Western Europe and Japan. . . . Nations helped by U.S. are competing for U.S. markets."

Put this "Biggest Success Story" into its proper place as an event in world history.

Fifty years ago (1910) capitalist imperialism, representing a small Western minority of mankind, had established effective mastery over the planet. Its power was centered in Europe. With minor exceptions the multitudes who lived in Asia, Africa, and Latin America were at the beck and call of their imperial overlords.

Capitalist imperialism was built around a competitive, planless, acquisitive economy. Urged on by greed, or in Veblen's more euphonious phrase, steadfast cupidity, the owners and masters of this economy plundered nature and exploited their fellow humans. The axiom of the economy was "every man for himself."

Competition was encouraged in all fields—economic, political, social. The competitive battle was waged between individuals and between rival groups—corporations, trusts, regions, nations, empires. The rules of the competition were of the simplest: "Anything to win. The sky is the limit."

At its highest level, competition was a shoot-to-kill, life-and-death struggle between sovereign armed states. Minor wars were fought by nation against nation, but the 1914-1918 orgy of destruction and blood-spilling was fought between two coalitions.

When the war ended in 1918 people said: "Never again! Germany and her allies began the fighting. Let them pay! With Germany defeated and disarmed, peace is assured." Germany was presented with a reparations bill in astronomical figures.

Within a decade reparations were forgotten and German industries were rebuilt by the United States while Germany's govern-

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ment was rearmed by Great Britain. After a decade of the Great Depression and a tryout of new weapons in the Spanish Civil War, the chief nations of Europe were ready for a second round of competition at its highest level—the frightfully destructive War of 1939-1945.

Once again the peoples cried "No more war!" Another conference was held. Instead of a League of Nations, this time it was the United Nations, dedicated to disarmament and the abolition of war. Germany and Japan, singled out as the culprits, were forbidden arms and the industries which produce arms. Before a decade had passed, the German and Japanese industries were humming once again and both countries were in process of being rearmed, this time with nuclear weapons.

Capitalist contraction was well advanced by 1910. During the next 35 years economic depression, colonial revolt, war, and social revolution prostrated world capitalism and presented the possibility of a cooperative alternative to a competitive, acquisitive, self-destructive social pattern. Under United States leadership, the scattered forces of shattered capitalism were re-assembled, put back (as far as may be) into their accustomed places, and prepared for a third and more destructive performance of the tragic dramas which devastated the planet from 1914 to 1918, from 1929 to 1937, and from 1939 to 1945.

There, in its sequences and its proper setting, is the counter-revolutionary "success story" of the new capitalism which presently threatens mankind with a third round of suicidal competition ending in annihilation.

What fools these capitalists be for offering such a bill of goods, and what utter fools these humans be if they fall for the bait.

I do not want an economic system so grossly inefficient that, at its most efficient—in the US, with every child born to about five hundred times the natural resources a European child is heir to—it can achieve only twice the European standard of living, and then only at the cost of excluding three or four million citizens from work and spending over half the government's income on lethal ironmongery. I do not want an economic system which, while paying farmers not to grow food in fertile land, desperately urges others to plant food crops in unfertile land, and, with huge food surpluses which it fails to distribute, leaves half the world's people on the edge of starvation.

In short, I do not want men to live for ever in a sort of global loony-bin; and I do not believe it is necessary.

—*Edward Hyams,* New Statesman, *March 28, 1959*

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CAPITALISM: HOW AND WHEN DID IT BEGIN?

BY MAURICE DOBB

In his imposing new work on capitalism* Professor Cox provides us with an interesting account of those early commercial cities of the middle-to-late Middle Ages which were in so many respects precursors of modern capitalism: Venice, Florence, Genoa in Italy, the cities of the Hanseatic League in north Germany, and later the Netherlands and particularly Amsterdam. This is a story that was well worth putting together in this form; and Professor Cox seems to be unusually well versed in the secondary sources about the economic and social history of these cities at that period. Venice, which he singles out as a forerunner, was a purely bourgeois society from the beginning, owing no allegiance to feudal lords of the neighboring region and having no feudal families among its citizens (mainly because of its peculiar geographical position). His account of the commercial system of all these cities has the merit, certainly, of treating the societies in question as unitary wholes—their structure of government, state policy, culture, even religion, as well as their economic activities being treated as exhibiting a uniform pattern. The similarity between the cases studied is continually emphasized, and some striking parallels emerge between these early societies and later capitalism as we know it.

The reliance of merchant capital from its earliest days on profit on *monopolized* trade is well brought out, the same theme recurring in the summary of the theory and policies of Mercantilism (though this central feature seemed to the reviewer to be less clearly and pointedly brought out here). The striving for monopoly naturally caused antagonism and conflict, not only between the merchant gilds of the early days and feudal authority, and later between the leading "patrician" gilds and the lesser gilds excluded from the essential privileges, but also between city-states themselves, leading to ruthless and exhausting wars over trading rights and exclusive territory. Here

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* *The Foundations of Capitalism,* by Oliver C. Cox, Foreword by Harry Elmer Barnes, Philosophical Library, New York, 1959, pp. 500, $7.50.

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politics was the instrument of commercial policy, and government served the purposes of the dominant groups. Thus Venice warred with Genoa, and Genoa with Pisa, and Florence warred with Siena and Pisa and Lucca. The Hanseatic League warred with Denmark and effectively used the threat of boycott and blockade to bring recalcitrant cities to their knees. These early trading monopolies had their dependent "colonial" areas as later had Mercantilist nations in the 17th and 18th centuries. The Venetians, for example, became masters of the Adriatic and treated Dalmatia as dependent territory for exploitation, as well as dominating colonial outposts further east in the Aegean. The key to wealth was to turn the "terms of trade" to one's own advantage.

So long as it is concerned with the record of events, easily and lucidly told, this book of 500 pages deserves only commendation. Where (to my mind) it begins to invite criticism is when it passes to interpretation. Curiously enough, at this point even its style changes, and we meet some examples of cumbrous and rather woolly jargon. Here I cannot help feeling that it fails to give us anything that can really be called an *explanation*; and this in turn seems to be due to a failure to pose the most important questions on which interpretation must turn. The author, it would seem, is content to describe and to classify, but stops short of analyzing. Even classification is a little dubious, since on the very definition of what capitalism is we are given really very little to bite upon. It is repeatedly referred to *as though* its nature had been explicitly enunciated; but what there is of definition struck the reviewer as question-begging and elusive, even as being more verbal than substantial. Capitalism is something that displays the social "behavior patterns" of capitalism and its "societal traits"; but we are not told in so many words what these are, except by reference to the characteristics displayed by the commercial cities the author proceeds to describe. We are repeatedly told that these societies were indubitably the start of capitalism because they exhibited its essential traits; but a reader must be forgiven for feeling that to be told so is not very illuminating.

Thus, we are informed in the introductory chapter that capitalism "is constituted elementally by a peculiar economic order, government and religious structure"; that "economically, capitalism tends to form a system or network of national and territorial units bound together by commercial and exploitative relationships in such a way that a capitalist nation is inconceivable outside this capitalist system"; and that is virtually all. It is forthwith announced that "we

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shall assume that the Venetian cultural situation locates the significant origins of the system, and then essay to show that future developments are consistent with our assumption"; and then (in a rather surprising oversimplification) that "the process of growth and line of development are unbroken."

The root of the trouble seems to be that Professor Cox derives not only his notions about capitalism and its origins, but his whole *method,* from the German school associated with the names of Sombart, Weber, and Troeltsch. For them, and apparently for him, capitalism originated in the emergence of certain habits of thought or feeling and behavior—of a capitalist spirit or *ethos* (today I suppose we should speak vulgarly of a "way of life"). To trace in history its beginnings and its diffusion, one must look first at the "cultural patterns" of a given society and secondarily at its economic anatomy —not the other way round. Since the emergence of this spiritual pattern is treated as being essentially a synthetic creation, an "accident" in the historical scene, it is not something that requires or permits an explanation—unless to put things into categories and to label them is held to be "explanation." Indeed, to analyze it may lose the essence of the notion and cause its "wholeness" to disintegrate. Study of its origins and subsequent history is accordingly treated as a matter of description rather than of causal analysis—brilliant intuitive and persuasive description in the hands of the masters of this school, but description and not causal explanation nonetheless.

One quite remarkable feature of the present work is that, despite an impressive 15-page bibliography of works cited, which includes most of what has been written about capitalism in the West and most of the leading economists like David Hume, Adam Smith, the two Mills, Schumpeter, and Keynes, neither the name nor the ideas of Marx are ever mentioned (except for a passing reference to a certain view as a "reaction to the monistic 'economic' analysis of Marxian theorists," and more obliquely in an approving reference to Hessen's view of Newton as "a typical representative of the rising bourgeoisie").

It is not for a reviewer to speculate about the intentions of an author. He can only conclude from this silence that Professor Cox, if he is aware that Marx had quite a lot to say about capitalism, does not consider his ideas about it worthy of attention. In the light of this omission, it is scarcely surprising that he should ignore the type of questions that were the subject of a discussion a few years ago about the transition from feudalism to capitalism (in which the

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present reviewer as well as one of the editors of MONTHLY REVIEW happened to take part). Much can no doubt be said in criticism of this discussion, and opinions about the issues raised may be numerous and varied. Yet few would deny, I should have thought, that the questions posed there were very relevant to Professor Cox's theme; especially since one of the issues was the role of merchant capital (whether progressive or reactionary) and of trade in the transition. They were essentially questions of interpretation—of the detailed why and how of development; consideration of which is so lacking in the present work. Perhaps such debates are regarded as rather provincial down Missouri way.

Had the author referred to any of the issues in this debate, there is not much doubt as to what his view on them would have been. Not only would he have placed emphasis on commerce as the prime generator of capitalism; he would go further (if I understand him rightly) in virtually identifying capitalism with the commercial spirit, and with the emergence of Adam Smith's "propensity to truck, barter and exchange" as a way of living. About this I have no wish to argue here. This is not the place to traverse the debate again and to press my own view that a bourgeois society in the sense of a *trading* society is not yet capitalism, and does not become so until you get capitalist relations of production. My complaint is the different one, that, because of the approach that he inherits from Sombart and company, the interpretation he offers is extremely tenuous, and boils down to little more than a few phrases about propensities and attitudes and "societal traits." These are seen, apparently, as the *fons et origo* of capitalism, the impulse to its spread and development; at times there are hints that the "system," born full-grown, preceded causally, if not in time, the appearance of its particular features and embodiments. Even the crucial changes of the industrial revolution are attributed simply to the maturing of a "societal organization" that had its beginning in 8th or 10th century Venice and was then passed on, like an Olympic torch, from one "leader nation" to the next. To my mind the real complaint is that, in common with other "holist" approaches (in essence idealist in conception), and like so much of present day sociological theory, "explanation" dissolves into vague generalities, which preclude rational discussion of them from their very vagueness and because they are so hard to pin down. I know that Professor Cox is not alone in seeking to explain the growth of, say, commercial profit-making by the growth of a "commercial propensity" in man and society. But I believe I am not alone in think-

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ing that this scarcely ranks as an explanation at all.

I do not wish to imply that Professor Cox ignores what is usually known as "economic factors" or the industrial as distinct from the commercial aspect of capitalism. His mention of them, however, is apt to be such as to reduce rather than to stress their causal role (as with inventions in the industrial revolution) and to depict them as derivative rather than essential. In one place, for example, he speaks of capitalist industry as being an offshoot and expression of the commercial spirit, with the implication that it requires no further analysis. In the story of Florence, details are given of the woolen textile industry, already partly on a factory (or rather "manufactory") basis, although much of it was the "putting-out system," both raw materials and looms being let out to small masters in their homes by merchant-manufacturers. A fairly full account is also given of the Florentine class struggle: at first of the mercantile element against the landowning nobility of the surrounding territory, then of the minor gilds (of craftsmen and retail shopkeepers) against the oligarchy of the major gilds who monopolized wholesale trade, and finally of the semi-proletarian small masters and journeymen against those who employed them. "The social situation in Florence," we are told, "provides a better historical laboratory for the study of class conflict than that in any other capitalist country." But even here opportunities are missed of providing concrete interpretation by using the particular structure of these social relations and the conflicts of interest inherent in them to explain the movement of events, or the absence of it—for example, to show how the strict subordination of what industry there was to the requirements of the export trade, and organizationally to the mercantile and banking oligarchy, prevented the rise of an independent class of capitalists from the ranks of the producers themselves (which experience shows to be the soil from which a broadly-based indigenous capitalism grows), and diverted capital accumulation into banking and usury and away from production.

Nor does one altogether wish to quarrel with the author's emphasis, which at times would be welcome if it came merely as a corrective to a narrow economic determinism or to a purely technological point of view. He does well, for example, to reject the view of inventions as "primary forces," or as "phenomena *sui generis,* having a life process of their own," and to stress that they are socially conditioned, that "the cumulative effects of many inventions serve essentially the dominant purpose of the society," and that "the philoso-

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phy of the early scientists" is to be identified "with that of the leaders of the emergent capitalist communities." But why not, then, take the opportunity to explain the technical changes of the industrial revolution in terms of the structure of social and economic relations immediately preceding them—by the fact that domestic industry and the putting-out system had already reached a fairly developed stage of capital-wage-labor relations; by the condition of the labor market and the growth of a proletariat (which is mentioned, but its historical genesis given, not merely no emphasis, but no place)? Instead we are told merely that "the essential trait of capitalist society leading to the industrial revolution" is the "pervasive trait of *inventiveness*"; that "whether a nation in the capitalist system becomes industrialized or not depends upon organizational and situational factors more importantly than mere availability or access to inventions or the size of its population"; and that "the inventions of the industrial revolution were employed to carry out a purpose already fixed in English capitalist society; and that purpose was to make England the supreme manufacturing nation of the system." Such generalities really will not do! One of the few things we are told more specifically may cause readers some surprise: namely, that a major determinant of whether a thing was produced under factory conditions was whether it was an object of foreign trade.

To conclude on a more positive note: Professor Cox's researches into the origins of capitalism have given him a commendably balanced sense of its historical relativity; and this may be considered to go some way to offset what one can only call the wooliness of his theoretical excursions. Unlike some writers on capitalism, he does not regard it as made to last forever or even to be regretted when it passes. Despite his insistence that a characteristic of capitalism is inventiveness, he says at the end of one of his chapters on the industrial revolution that "a decline of capitalism" will not involve "the failure of science and technology." On the contrary, "there are indications that, just as capitalism has shown its limitations in directly serving human welfare, so also it has become a force restricting the spread and wider uses of technology in a world resorting more and more to social planning. . . . Perhaps it is in a socialist world that the Baconian dream of 'man's empire over things' would be fully realized."

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(*continued from inside front cover*)

articles on that subject by Paul A. Baran which appeared last October and November. Stanley Moore and Joseph Starobin have written commentaries on these articles, and Professor Baran has replied.

A reader from Brighton, Colorado, writes asking for a complete list of MR Press publications and adds: "I would also be interested to know if you have any back issues of MR for sale." The answer is that all back issues are available at 35¢ per copy or 3 for $1, with the exception of the following which are very scarce and therefore sell for $3 apiece: March 1950, September 1950, November 1950, December 1950, February 1951, March 1953, and April 1953. We also have for sale Volumes 1 through 10, bound in beautiful wine color with gold lettering on the spine. The prices are: Volumes 1, 3 and 4—$10; Volume 2—$15; and Volumes 5 through 10—$7. Why not urge your local library to buy a complete set of bound volumes? You can assure your librarian that these are bargain prices. Just think of what the early volumes will be selling for at the end of MR's first 50 years!

By the time this issue reaches you, the manuscript of Fritz Pappenheim's book *The Alienation of Modern Man* will be in the hands of the printer, and we are planning a fall publication date. We are now accepting orders at the special prepublication price of $2.50. After publication date the price will be considerably higher.

In our Review of the Month for May ("Whom the Gods Would Destroy") we expressed the view that the Soviet Union's chief interest in Germany at this stage is in keeping that country free of nuclear weapons. This was confirmed in an interesting way in an exchange between the French Foreign Minister and Gromyko at Geneva, as reported in the *New York Times* of May 26th: "The French delegate asked if a peace treaty was not really the means of extending Soviet control over the military status of West Germany. 'What we want,' Mr. Gromyko answered, 'is that West Germany should not be transformed into an immense base for atomic aviation, atomic armaments and rocket sites. We want Germany to be a pacific state. It is only in this that the interest of the Soviet government bears on West Germany.' " The *Times* reporter called this "winning an acknowledgment" from the Soviet Foreign Minister. One wonders what kind of Germany the Gaullist regime in France is interested in.

A letter from a Japanese reader who just graduated from a university and has taken a job with a small firm tells us that he will send in his sub to MR as soon as possible. "For $4.00 is an eighth of my month's salary, I am unable to pay it at once." Sometimes it seems that a brief remark like that throws more light on the condition of the world than whole volumes of statistics.

We are glad to be able to tell MR readers that Paul Sweezy will be a Visiting Professor of Economics at Cornell University in the first half of the 1959-1960 academic year.

A journalist friend of ours recently made the following comment on MR's tenth anniversary meeting which was held in New York on May 19th: "One of the speeches was over my head and the other got under my skin." The speakers are still debating about which was which.

Scott and Helen Nearings' passports have been revoked because they went to China. The Nearings are applying for new passports at once and intend to take all necessary steps to enforce their right to travel. A pamphlet giving the full facts of the case will soon be published by the Social Science Institute, Harborside, Maine.

Remember that the next issue will be in September. Until then, we hope you enjoy your vacation.

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